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BY
JONAS STRØMFELDT EDUARDSEN

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AALBORG UNIVERSITY
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ENGLISH SUMMARY

The dissertation explores how decision-makers in small and medium-sized enterprises (SMEs) engaged in international business perceive and acts upon the risks to which the firms is exposed when doing business in foreign markets. Previous research indicate that decision-makers perceptions of risks is a key factor in explaining why some SMEs and not others decide to internationalise, the time elapsing between the company's foundation and its first international venture, and the number of countries in which the firm conducts business. Understanding how SME decision-makers perceive and acts upon the risks associated with internationalisation therefore leads to better understanding and explaining the internationalization patterns of SMEs.

To explore how decision-makers in SMEs involved in international business perceive and act upon the risks associated with doing business in foreign markets semi-structured interviews were conducted with 32 decision-makers in a range of Danish SMEs. These interviews focused on the decision-makers experiences and opinion in relation to the internationalization of their firm, including their subjective assessment of the main risks faced when doing business in foreign markets and their actions to deal with these risks.

The findings from this study illustrate how the majority of decision-makers perceived internationalization to be moderately risky, but not too risky to firms that are managed properly. In addition, findings suggest that SME decision-makers are proactive in minimizing risks. SME decision-makers were found to search for and employ various coping mechanisms in order to reduce the likelihood or severity of potential loss from engaging in international business. Taken together, the findings suggests that SME decision-makers perceptions of the risks associated with internationalization and reactions to these risks are influenced by the psychological and cognitive characteristics of the decision-makers and their experiences.

This study advances our understanding of the ways in which SME decision-makers form judgement about the risks they face when doing business in foreign markets and how they deal with their concerns about perceived risks. In addition, the thesis contributes by highlighting promising avenues for future research, including cognitive and behavioural influences on the internationalization process, how SME decision-makers learn about risks and the role of culture in understanding SME decision-makers risk perceptions.

DANSK RESUMÉ

Formålet med nærværende afhandling er at undersøge, hvordan beslutningstagere i en række små og mellemstore virksomheder (SMVer), som er involveret i internationalisering, opfatter og handler på baggrund af de risici, som er forbundet med at ekspandere til fremmede markeder eller gøre forretning med udenlandske kunder. Tidligere studier påviser hvorledes beslutningstagernes risikoopfattelse er en vigtig faktor til at forklare SMVers tilbøjelighed til at påbegynde internationalisering samt deres internationaliseringsmønstre. En bedre forståelse af hvordan beslutningstagere opfatter og handler på bagrund af de risici, som er forbundet med internationalisering, kan derfor medføre en bedre og større forståelse af internationaliseringsadfærden og internationaliseringsmønstrene i SMVer.

For at undersøge dette blev der gennemført 32 semi-strukturerede interviews med beslutningstagere i danske SMVer, der alle har påbegyndt deres internationalisering. Formålet med disse semi-strukturerede interviews var, at opnå et indblik i beslutningstagernes erfaringer og oplevelser forbundet med virksomhedens internationalisering, herunder deres subjektive vurdering af de største risici forbundet med internationalisering samt deres handlinger i forbindelse med håndteringen af disse risici.

Overordnet viste studiet, at flertallet af beslutningstagerne ikke deler eksperternes holdning, at internationalisering er risikofyldt. Desuden viste studiet, hvordan størstedelen af beslutningstagerne var aktivt involveret i at reducere den risiko, som var forbundet med virksomhedens internationale forretninger. Dette blev gjort ved at søge efter og implementere konkrete foranstaltninger eller mekanismer, som kan reducere sandsynligheden eller konsekvenserne af potentielle tab forbundet med virksomhedens internationale forretninger. Til sidst viser studiet hvordan beslutningstagernes subjektive vurdering af de risici, som er forbundet med internationalisering, samt deres reaktion på disse risici, påvirkes af beslutningstagerens psykologiske og kognitive karakteristika samt deres tidligere erfaringer.

Nærværende afhandling bidrager derfor til vores forståelse af hvordan beslutningstagere giver mening og vurderer de risici, som de står overfor når de skal ekspandere til udenlandske markeder, samt måden hvorpå de håndterer deres bekymringer omkring disse risici. Derudover bidrager studiet ved at identificere væsentlige fremtidige forskningsområder, som kan være med til at styrke vores forståelse af internationalisering i SMVer.

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Writing this thesis has been a long and demanding journey and I could not have succeeded without the guidance and support of many different individuals. I would therefore like to take this opportunity to express my gratitude to those individuals, who has helped me succeed in my endeavours.

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Jonas Strømfeldt Eduardsen

Aalborg, October 2015

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1 INTRODUCTION

In this introductory chapter, the purpose is to familiarise the reader with the aim of the study. First, the research background that frames the study is presented, along with the rationale for conducting the study. Second, the limitations of previous research will be discussed in order to identify significant gaps in existing knowledge and will show how the study is intended to address these gaps. The chapter concludes with an outline of the individual chapters that together make up this thesis.

1.1 RESEARCH BACKGROUND

Internationalisation of small and medium-sized enterprises (SMEs), that is, the increased involvement of SMEs in foreign market operations (Calof & Beamish, 1995), is a topic that has received much attention from academia over the last few decades (Coviello & McAuley, 1999; McAuley, 2010; Ruzzier, Hisrich, & Antoncic, 2006).The term SME covers a wide range of definitions (McAuley, 2010). In the following discussion, SMEs are defined as firms with fewer than 250 employees. This is the most frequently used definition when looking across different countries (OECD, 2005) and it is frequently used in the literature on SME internationalisation (Agndal, Chetty, & Wilson, 2008; Galkina & Chetty, 2015; Hilmersson, 2014; Pinho & Martins, 2010). Existing research on SME internationalisation has been concerned with a number of issues, including the patterns of internationalisation (Baum, Schwens, & Kabst, 2015; Kuivalainen, Sundqvist, Saarenketo, & McNaughton, 2012; Sui, Yu, & Baum, 2012), the timing of internationalisation (Acedo & Jones, 2007; Crick, 2009; G. A. Knight & Cavusgil, 2004; Oviatt & McDougall, 1994, 1997), mode of internationalisation (Brouthers & Nakos, 2004; Nakos & Brouthers, 2002; Oehme & Bort, 2015; Zahra, Ireland, & Hitt, 2000), and the effect of internationalisation on SME performance (Hagen, Zucchella, Cerchiello, & De Giovanni, 2012; Hilmersson, 2014; Lu & Beamish, 2001; Sui & Baum, 2014).

This growing attention can be attributed to interest in several issues. First, the vast majority of all firms are categorised as SMEs and perform a critical role in both developed and emerging economies (Hessels & Parker, 2013). Recent statistics by the International Finance Corporation, a member of the World Bank Group, show that SMEs account for about 90 percent of businesses, with more than 125 million formal SMEs worldwide (Kushnir, Mirmulstein, & Ramalho, 2010). In addition, SMEs have been found to be the main providers of innovation and entrepreneurship (Ah Keng & Soo Jiuan, 1989) and contribute significantly to wealth creation and employment in many countries (Ayyagari, Beck, & Demirguc-Kunt, 2007). Therefore, it may be argued that SMEs represent the backbone of the world economy.

Second, more and more SMEs are becoming increasingly active in international markets. Research has demonstrated how an increasing number of firms now pursue internationalisation early in their life-cycle (Cavusgil & Knight, 2015; Fan & Phan, 2007; Oviatt & McDougall, 1994).The existence of international SMEs has been widely acknowledged in existing literature, where these firms have been referred to as born globals (G. A. Knight & Cavusgil, 2004; Rennie, 1993), international new ventures (Oviatt & McDougall, 1997, 2004), committed internationalists (Bonaccorsi, 1992), and micro multinationals (Dimitratos, Johnson, Slow, & Young, 2003). Arguably, increased globalisation, triggered by a reduction of trade barriers and protectionism and the introduction and diffusion of low-cost information and communication technologies, has created new growth opportunities for SMEs (Axinn & Matthyssens, 2002; G. A. Knight, 2015; Nummela, 2004). Today, even the smallest firms have the freedom to create and capture opportunities across national borders (Etemad & Wright, 2003a). In addition, increased globalisation has also created pressure on SMEs to internationalise. The reduction of barriers that have traditionally segmented and segregated the national and international markets has increased competition at national, regional, and global levels (Etemad, 2004). Consequently, SMEs are often forced into pursuing a niche market strategy in order to avoid head-on competition with larger multinational enterprises (MNEs) (Fernhaber, McDougall, & Oviatt, 2007). Such a move reduces the size and importance of the home market and forces SMEs to look beyond national borders in order to achieve growth and even survive (Christensen, 1991; Shrader, Oviatt, & McDougall, 2000). Thus, because of the increased globalisation, combined with advances in transportation and communication technologies, firm size and age are no longer prerequisites for pursuing international expansion (J. Mathews & Zander, 2007).

Third, empirical evidence shows that SMEs are different from larger companies. SMEs are typically confronted with a number of unique size-related constraints in the internationalisation process, which constrain SMEs from reaching more advanced and committed stages of internationalisation (Buckley, 1989; Johanson & Vahlne, 1977; Kahiya, 2013; Leonidou, 2004). Thus, it is inappropriate to consider

SMEs as smaller versions of large companies (Shuman & Seeger, 1986). SMEs have to cope with human, financial and information resource constraints when seeking to expand abroad and therefore tend to internationalise and operate in different ways compared to larger and more established firms (Dimitratos et al., 2003; Etemad & Wright, 2003b). SMEs have to rely more on resource-conserving strategies as a means for coping with resource scarcity (Sasi & Arenius, 2012). For instance, previous studies comparing the foreign operation modes of SMEs and large companies show that SMEs more frequently use contractual arrangements than large companies (Berra, Piatti, & Vitali, 1995; Hollenstein, 2005). The argument is that firms with greater resource constraints are forced to act prudently and minimise risk, hence preferring a low-resource entry mode (Mutinelli & Piscitello, 1998). To give another example, joint ventures have been proposed as a viable strategy enabling SMEs with limited productive resources and/or market knowledge to enter international markets (Kirby & Kaiser, 2003).

Internationalisation has been successfully linked with a number of positive outcomes. Several studies demonstrate that internationalisation increases SMEs' performance and survival prospects (Hilmersson, 2014; Lee, Kelley, Lee, & Lee, 2012; Lu & Beamish, 2001; Puig, González-Loureiro, & Ghauri, 2014; Zhou, Wu, & Luo, 2007). Arguably, internationalisation can provide SMEs with the knowledge, skills and capabilities needed to survive and prosper (Lu & Beamish, 2006) and lead to faster firm growth and improved firm profitability (Autio, Sapienza, & Almeida, 2000). In addition, internationalisation may provide SMEs with a number of diversification benefits and reduce their dependencies on any single market (Zahra et al., 2000). Others argue that internationalisation allows SMEs to avoid head-on competition with older, larger firms (Lee et al., 2012). These findings are supported by a recent EU-commissioned survey of 9.480 SMEs in 33 European countries, which shows that being internationally active is strongly related to higher turnover growth (European Commission, 2010). Others have linked internationalisation with increased exposure to different types of knowledge, which can enrich and improve SMEs' capability to innovate (George, Wiklund, & Zahra, 2005; Zahra, Ucbasaran, & Newey, 2009). Thus, existing literature suggests that internationalisation may be vital for SMEs to prosper in an increasingly competitive and globalised world.

Firms operating across national borders are, however, also confronted with a number of risks, some of which are unique to firms actively involved in international operations (Ghoshal, 1987; Shrader et al., 2000). This is particularly true for SMEs that, because of their '*liability of smallness*' (Aldrich & Auster, 1986), often have a limited ability to tolerate negative consequences from being involved in international operations (Child & Hsieh, 2014; Lu & Beamish, 2001) and lack the resources required for establishing and supporting risk management activities (Brustbauer, 2014; Falkner & Hiebl, 2015).

Risk has, for a long time, been a central concept in internationalisation research (Liesch, Welch, & Buckley, 2011), where it refers to '*instabilities and vulnerabilities faced by companies engaged in international business, which impose limitations, restrictions, or even losses*' (Hsieh, Rodrigues, & Child, 2010, p. 289). Different types of risk adhering to doing business in foreign markets have been identified and discussed in the literature, some of which are *exogenous* to the firm (i.e., originating externally), while others are *endogenous* (i.e., originating internally) (Hagigi & Sivakumar, 2009). One classification of the risks associated with internationalisation separates the risks in general, environmental risks, industry related risks and company related risks (Miller, 1992). For instance, firms face the risk that future events within the host-country environment, whether anticipated or not, will have a negative effect on the functioning of the firm (C. L. Brown, Cavusgil, & Lord, 2015; Di Gregorio, 2005). This could include political decisions, events or conditions within a host country that endanger the firms well-being (Bekaert, Harvey, Lundblad, & Siegel, 2014; Wyk, 2010). It could also include changes in economic conditions that affect the country's business environment (Hain, 2011). For instance, fluctuations in exchange rates can potentially have severe financial consequences (Batten, Mellor, & Wan, 1993; G. W. Brown, 2001; Jacque, 1981). Firms actively involved in international operations are therefore subject to risks that would not otherwise be present. Hence, SMEs increasingly face a dilemma. On the one hand, internationalisation provides SMEs with an opportunity for growth and may result in better performance and survival prospects. On the other hand, internationalisation exposes SMEs to heightened risks, which may negatively influence the performance and wellbeing of the company.

It is generally accepted that risk is fundamental to the processes of internationalisation. Risk is, for example, a cornerstone of the internationalisation process theory, according to which risk influences a firm's commitment to foreign markets (Johanson & Vahlne, 1977). Risk has been described as a constraining factor in the internationalisation process, which hinders SMEs' capacity to initiate, develop or sustain business operations in foreign markets (Acedo & Casillas, 2007; Leonidou, Katsikeas, & Piercy, 1998). In essence, it is argued that a firm's international commitment is unlikely to increase, unless the risks and uncertainties associated with increasing involvement in foreign markets are reduced to an acceptable level (Figueira-de-Lemos, Johanson, & Vahlne, 2011). Empirical evidence also demonstrates how risk is central in explaining why some SMEs and not others decide to internationalise (Cavusgil & Naor, 1987; Simpson & Kujawa, 1974), the degree of internationalisation (Acedo & Florin, 2006), the time elapsing between the company's foundation and its first international venture (Acedo & Jones, 2007), and the number of countries in which the firm conducts business (Kiss, Williams, & Houghton, 2013). Hence, risk has been identified as an important variable in explaining heterogeneity in the internationalisation of SMEs.

1.2 RESEARCH AIMS AND OBJECTIVES

The broad objective of the study presented in this thesis was to explore how SME decision-makers involved in international business operations perceive the risks associated with doing business in foreign markets and the mechanisms used for dealing with these risks. Thus, the study revolves around two themes: (1) risk perception defined as '*a decision maker's assessment of the risk inherent in a situation*' (Sitkin & Pablo, 1992, p. 12) and (2) risk accommodation defined as '*ways in which firms and individual entrepreneurs deal with their concerns about perceived risk*' (Liesch et al., 2011, p. 864).

The aim of this study is to contribute to the understanding of SME decision-makers' subjective assessment of risk inherent in international business activities, the factors influencing their perception of risk, and the coping mechanisms used for dealing with these risks. While the topic of SME internationalisation has captured a great deal of interest as a topic of academic inquiry and is, by now, a rather well-studied area, few studies have explored how decision-makers in SMEs involved in international business activities perceives and deals with the risks to which the firms is exposed when doing business in foreign markets (Fernhaber & McDougall-Covin, 2014; Figueira-de-Lemos et al., 2011; Kraus, Ambos, Eggers, & Cesinger, 2015). It is generally acknowledged that internationalisation is inherently risky compared to operating in domestic markets (Hagigi & Sivakumar, 2009; Miller, 1992; Werner, Brouthers, & Brouthers, 1996). Yet surprisingly little is currently known about how SME decision-makers involved in foreign activities *perceive* these risk (Acedo & Florin, 2006; Kiss et al., 2013) and *why* some SME decision-makers perceive more or less risk in foreign business activities (Claver, Rienda, & Quer, 2008).

To date, previous internationalisation research has, been dominated by a single meta-theoretical lens and operates within a functionalistic and positivistic paradigm, despite growing critique and calls for meta-theoretical variation and reflexivity to garner new insights into internationalisation (Brannen & Doz, 2010; Coviello & Jones, 2004; Jack, Calás, Nkomo, Peltonen, & Calas, 2008). Thus, previous research is both guided and constrained by positivistic assumptions (R. Piekkari, Welch, & Paavilainen, 2009), leaving little or no room for managerial discretion, perceptions and experiences (Hutzschenreuter, Han, & Kleindienst, 2010; Lamb, Sandberg, & Liesch, 2011; Petersen, Pedersen, & Sharma, 2003). As a result, existing research has been criticised for not paying adequate attention to the decision-maker (Aharoni, Tihanyi, & Connelly, 2011; Child & Hsieh, 2014; Hutzschenreuter, Pedersen, & Volberda, 2007). Maitland and Sammartino (2015), for example, recently argued that existing research has neglected the cognitive aspect, why little is known about '*how managers make sense of foreign environments, and whether and how their perceptions and analyses affect internationalization decisions*'. Similarly, Lamb, Sandberg and Liesch (2011) call for more research focusing on managerial perceptions, arguing that SME internationalisation is defined by the perceptions of those who orchestrate the internationalisation process (i.e., key decision-makers). Consequently, the role of managerial cognitions in the assessment of foreign environments and internationalisation decision-making remains underexplored and poorly understood.

This is problematic, as empirical evidence suggests that differences in managerial perceptions of risk are important in explaining strategic decisions related to internationalisation, including when, where and how SMEs internationalise (Acedo & Galan, 2011). Managerial perception of risk has, for example, been highlighted as a central mechanism in explaining why some SMEs and not others decide to internationalise (Cavusgil & Naor, 1987; Simpson & Kujawa, 1974), the proportion of foreign sales to overall sales and the level of internationalisation commitment (Acedo & Florin, 2006), the time elapsing between the company's foundation and its first international venture (Acedo & Jones, 2007), and the number of countries in which the firm conducts business (Kiss et al., 2013). Taken together, these studies suggest that SMEs are more likely to commit to internationalisation and expand more rapidly into foreign markets when decision-makers perceive less risk associated with doing business in foreign markets. Given that decision-makers' perception of risk is important in explaining SME internationalisation, it is important to gain a more detailed understanding of their perceptions of risk, including the factors affecting them.

Another area which urgently demands more research is the question of how SMEs deal with the risks associated with doing business in foreign markets (Di Gregorio, 2005; Figueira-de-Lemos et al., 2011). As discussed above, as a consequence of the increased globalisation of markets, SMEs are increasingly active in foreign markets and therefore exposed to more risks, as internationalisation is inherently risky (Lu &

Beamish, 2001). In addition, SMEs are often less capable of absorbing and recovering from loss because they lack the organisational slack which provides a cushion for the venture to rely on in the face of limitations, restrictions, or even losses when engaging in international business (Fernhaber & McDougall-Covin, 2014). Thus, coping with risks is an important task when involved in business activities in unknown foreign territories (Hain, 2011) and an important topic in internationalisation research (Fernhaber & McDougall-Covin, 2014; Shrader et al., 2000).

Even though coping with risk in international SMEs is important, there has been a shortage of research focusing on this issue (Hilmersson, Sandberg, & Pourmand Hilmersson, 2015). Figueira-de-Lemos, Johanson and Vahlne (2011), for example, explain how very few studies have focused strictly on risk management in the internationalisation process. This is surprising, considering that Ghoshal (1987) identified the management of risk as one of the most essential objectives of decision-makers in firms operating internationally almost three decades ago. This may be particularly true for decision-makers in SMEs, whose survival is more easily threatened, due to their unique size-related challenges and resource constraints (Child & Hsieh, 2014; Lu & Beamish, 2001). In addition, it has been argued that the ability of SMEs to internationalise, despite the increased risk, is in part explained by their ability to cope with and manage risk, as risk must be considered sufficiently low to allow international involvement to proceed (Johanson & Vahlne, 1977; Liesch et al., 2011). Hence, more research is needed to explore how SMEs and decision-makers manage risk when seeking to expand abroad.

Against this background, the following two general research questions were formulated with the aim of contributing to scientific knowledge on SME internationalisation:

1. How and why do SME decision-makers involved in international business activities perceive risk when doing business in foreign markets?
2. To what extent and how do SME decision-makers cope with the perceived risks associated with doing business in foreign markets?

The dissertation was designed and written as a paper-based dissertation that, as opposed to a monograph, is a collection of research articles. Each research article is free standing in the sense that each research article has a unique aim and research question and can be read and understood independently of each other. However, all four individual papers are related, in some way, to the dissertation's research topic and general research question.

1.3 STRUCTURE OF THE THESIS

In this section, the contents of the remaining chapters in the thesis are delineated. The thesis was designed and written as a paper-based thesis that, opposed to a monograph, is a collection of research articles. Given this choice of format, the thesis will be organised as a collection of research articles with an introductory and a concluding chapter.

Having provided the background and motivation for the study and introduced the purpose of the research, **chapter 2** systematically reviews existing internationalisation literature on risk in order to synthesise existing literature, identify significant gaps, and suggest promising avenues for future research in order to further develop our understanding of risk in the internationalisation process.

Chapter 3 presents the methodology and approach used for this study by describing how the research questions will be addressed and answered. This chapter will present and justify the philosophical positioning of the study, the research design used, the sampling technique used for selecting participants, and the specific procedures and techniques used for collecting and analysing the data.

In the following chapters three empirical studies are presented. First, c**hapter 4** empirically examine how SME decision-makers view, experience and judge risk in the internationalisation process, including the different factors influencing and shaping decision-makers' risk perception. **Chapter 5** examines how SMEs and key decision-makers cope with their concerns about perceived risk, however substantial, enabling them to commit to internationalisation and pursue international involvement. **Chapter 6** explores how the Internet can be used by SMEs to reduce the risks that adhere to doing business in foreign markets. First this chapter examines how the Internet is used to close perceived knowledge gaps and reduce uncertainties accompanying internationalization. Second, the chapter examines how the Internet influence market commitment, including SMEs internationalization costs.

Finally, **chapter 7** concludes the study by presenting a set of concluding statements and recommendations based on the findings. Here the preceding chapters are synthesised and the contributions of the four research articles are explicitly discussed. The chapter concludes with a number of topics that are perceived as providing promising avenues for future research in the field of SME internationalisation.

2 RISK AND INTERNATIONALISATION: A REVIEW AND RESEARCH AGENDA

Jonas Eduardsen

Abstract: Risk is a pivotal construct in international business. However, to date, research on risk and internationalisation has not been systematically reviewed. The current article addresses this gap, by reviewing existing literature on risk and internationalisation published in peer-reviewed journals. A thematic analysis was performed in order to group existing studies into research streams. Three themes or streams of research were identified. The first theme revolved around the role and impact of risk in firm internationalisation. The second theme focused on how risk, including decision-makers subjective assessment of risk, influence strategic decision-making and internationalisation patterns. Finally, the third theme focused on how firms coped with perceived risks in the internationalisation process, in order to increase involvement in foreign markets. Building upon this review, promising avenues for future research were suggested. These include examining how decision-makers identify and understand risk in relation to internationalisation and the factors interacting to influence managers' subjective assessment of risk associated with internationalisation, the ways in which SMEs deal with risks associated with internationalisation, and the conditions under which internationalisation is likely to reduce risk and vice versa.

Keywords: Internationalisation; SMEs; Risk; Uncertainty; Literature review; Risk accommodation; Decision-making

2.1 INTRODUCTION

Risk is a pivotal construct within internationalisation research (Figueira-de-Lemos et al., 2011; Liesch et al., 2011), where it refers to '*the dangers firms faced in terms of limitations, restrictions, or even losses when engaging in international business*' (Ahmed, Mohamad, Tan, & Johnson, 2002, p. 805). While risk is often defined differently in various disciplines (Althaus, 2005; Lumpkin & Dess, 1996), risk is often used to describe outcome uncertainty and '*the extent to which there is* *uncertainty about whether potentially significant and/or disappointing outcomes of decisions will be realized*' (Sitkin & Pablo, 1992, p. 10). In other words, a decision is considered risky when the outcome of the decision is difficult to foresee, making uncertainty an important source of risk (Aven & Renn, 2009; Cho & Lee, 2006).

While internationalisation promises SMEs increased performance and survival rates (Lu & Beamish, 2001; Puig et al., 2014), it is generally acknowledged that expanding into foreign markets involves risks, some of which are internal to the firm and some of which are external to the firm (Fernhaber & McDougall-Covin, 2014; Hagigi & Sivakumar, 2009). Different types of risk have been associated with internationalisation in the literature, including political risk (e.g. Bekaert et al., 2014; Iankova & Katz, 2003; Wyk, 2010), country risk (e.g. C. L. Brown et al., 2015; Di Gregorio, 2005; Oetzel, Bettis, & Zenner, 2001), cultural risk (Hain, 2011) and relational risk (T. K. Das & Teng, 2001; Delerue, 2004). As a result, internationalisation has been described as risk behaviour (McDougall & Oviatt, 2000). This is particularly true for SMEs, as these typically lack the organisational slack needed to absorb loss and recover from it (Child & Hsieh, 2014; Lu & Beamish, 2001). This is because internationalisation often involves venturing into foreign markets where there is a high degree of uncertainty because firms often lack insight and knowledge about these markets (Oviatt, Shrader, & Mcdougall, 2004; Schweizer, Vahlne, & Johanson, 2010). Miller (1992) differentiates between three types of uncertainty, which together are considered important sources of risk in the internationalisation process: (1) environmental uncertainty (which affects all companies), (2) industry-related uncertainty (which affects specific industries), and (3) firm-related uncertainty (which is unique to a single firm). These uncertainties, in turn, makes it more difficult for firms to determine the probabilities as to the likelihood of future events, making it difficult to foresee or predict the outcomes of international business activities (McKelvie, Haynie, & Gustavsson, 2011). Thus, it is generally agreed that internationalisation is inherently risky.

Risk is often mentioned as being central to theorising about and explaining the internationalisation of firms, including SMEs (Acedo & Florin, 2006; Figueira-de-Lemos et al., 2011; Liesch et al., 2011). For instance, risk plays a central role in explaining the internationalisation pattern of firms in the internationalisation process model (Johanson & Vahlne, 1977), where risk is considered to influence commitment decisions and international activities. In addition, risk is also a pivotal construct in international entrepreneurship, which has been defined as '*a combination of innovative, proactive, and risk-seeking behaviour that crosses* *national borders and is intended to create values in organizations*' (McDougall & Oviatt, 2000, p. 903).

Given its central role in both internationalisation and international entrepreneurship research, it is not surprising that previous studies have explicitly examined the role of risk across several important topics, including internationalisation propensity (Cavusgil & Naor, 1987), degree of internationalisation (Acedo & Florin, 2006), speed of internationalisation (Acedo & Jones, 2007), foreign operation mode (Ahmed et al., 2002; Demirbag, McGuinness, & Altay, 2010; Schwens, Eiche, & Kabst, 2011), and the number of countries in which the firm is actively involved (Kiss et al., 2013). Yet, to date, little effort has been made to summarise and critically evaluate previous studies on risk and internationalisation. This is problematic, as a comprehensive review of existing literature can be of vital importance for the future development and conceptualisation of the research area, by extending and developing theory related to risk and internationalisation (Denyer & Tranfield, 2006; Torraco, 2005). In addition, considering the absence of a comprehensive review, there is a real danger that previous studies will remain isolated, with their potential cumulative advantage for advancing knowledge in the field being neglected (Hoon, 2013). Third, a systematic review of existing literature on risk and internationalisation can help identify contending findings and identify productive lines for future research (Torraco, 2005). Thus, a literature review that systematically analyses and synthesises existing literature on risk and internationalisation in an integrated way is an important step towards advancing our understanding of risk in the internationalisation process.

The purpose of this paper is to address this gap in the literature, by providing an overview of existing literature, identifying significant gaps, and suggesting promising avenues for future research in order to develop the understanding of risk in the internationalisation process. Thus, the aim is to stimulate further research by pinpointing areas of unresolved issues, so that our understanding of this emerging phenomenon is broadened. To fulfil this purpose, the paper proceeds as follows. First, in order to define the boundaries of this review, the concept of risk is defined and discussed. Second, the scope and methodology of the review is presented, including the search strategy and inclusion criteria, as well as the procedures used to analyse and synthesise the literature. Third, the results of the review are presented, including a thematic mapping of the literature. Fourth, building upon the review of existing literature, important gaps in the literature are identified and promising avenues for future research are suggested. Fifth, the findings, suggestions, and contributions are summarised in the conclusion.

2.2 WHAT IS RISK?

The notion of risk has been widely discussed and studied in a wide variety of disciplines, including psychology, sociology, economy and management (Althaus, 2005; Taylor-Gooby & Zinn, 2006a). Yet, confusion prevails in the existing literature regarding the meaning of risk. In the extant literature, no single generally accepted definition of risk exists. Baird and Thomas (1990) were among the first to emphasize this issue, as they identified numerous uses of the term 'risk' in the fields of psychology, management, finance, and marketing. These different conceptualisations of risk included: variability of returns, probability of loss, expected value and probabilities of possible outcomes, failure to attain targets, ruin and lack of information. In addition, they found strategic management researchers most often defined risk as variability of accounting or stock returns, innovation, lack of information, and the threat of serious loss or bankruptcy. More recently, Janney and Dess (2006) noted how risk in the entrepreneurship literature was conceptualised in three different ways: *risk as variance, risk as downside loss,* and *risk as opportunity costs.* While risk as variance focuses on the 'spread' of potential outcomes, i.e., both positive and negative, risk as downside loss and risk as opportunity focus on the outcomes of decisions. Risk as downside loss focuses on the likelihood and magnitude of potential losses, while risk as opportunity focuses on the 'upside' potential. Further adding to this confusion, there remains considerable overlap in the usage of the terms ‘risk’ and ‘uncertainty’ (Alvarez & Barney, 2005). For instance, in both international entrepreneurship and international business, risk and uncertainty are often treated as synonyms (Liesch et al., 2011). Yet, others, argue that ‘risk’ and ‘uncertainty’ should be conceptualised as two sides of the same coin, meaning that they are two conceptually different concepts, yet closely related (Figueira-de-Lemos et al., 2011). Taken together, this emphasises the disagreement on what is meant by risk in existing literature.

In the so-called ‘classical approach’, risk is conceptualised in terms of probabilistic outcomes (Miller, 2009). Here, risk is commonly defined in terms of variance in the distribution of potential outcomes, their likelihood, and their subjective values (March & Shapira, 1987). From this perspective, risk can have both positive and negative manifestations and this is why risk involves the probability of something happening, combined with the magnitude of associated losses or gains (Lupton, 1999). Furthermore, in the ‘classical approach’ risk refers to situations where the decision-maker is knowledgeable about potential outcomes and the probabilities of these outcomes occurring, whereas situations where the probabilities are inestimable or unknown is referred to as uncertainty (F. H. Knight, 1921). A risky choice is therefore best described as a situation in which a wide range of outcomes is possible. However, other studies demonstrate how the 'classical' approach fails to capture the concept of risk, as perceived and recognized by managers, which is why this conceptualisation of risk is not appropriate for management research and organisational studies (Miller, 2009). Rather, empirical evidence suggests that managers perceive risks in terms of the magnitude of loss (March & Shapira, 1987; Shapira, 1995). Therefore, it is more appropriate to define risk in terms of the likelihood and magnitude of downside loss rather than an overall variance of returns (Janney & Dess, 2006; Mullins & Forlani, 2005). Hence, a risky choice is best described as a choice that contains a threat of a noteworthy loss. This is supported by Miller (2007, p. 67), who argues that '*using uncertainty to refer to unpredictable contingencies affecting performance and 'risk' to indicate unpredictability or possible downside variability of performance more accurately describes the meanings expressed in entrepreneurship and strategic management research than do Knight's (1921) classic definitions*'. This definition is more narrow compared to the one above, however it is also more aligned with the meaning of risk in everyday lay people's language, where risk tends to be used to refer almost exclusively to the possibility of suffering harm or loss (Lupton, 1999).

2.3 METHODOLOGY OF THE REVIEW

Consistent with recent calls for an effort to strengthen the methodological rigour of reviews within management literature, a systematic review was undertaken (Tranfield & Denyer, 2003). Traditional narrative reviews are often criticised for being subjective and used as arguments for a particular point of view (Weed, 2008). By contrast, a systematic review refers to a '*systematic accumulation, analysis and reflective interpretation of the full body of relevant empirical evidence related to a question*' (Rousseau, Manning, & Denyer, 2008, p. 475). Hence, the aim in systematic reviews, unlike traditional literature reviews, is to minimise the bias associated with traditional reviews by relying on a systematic, transparent means for gathering, synthesising and appraising existing literature (Tranfield & Denyer, 2003). According to Tranfield and Denyer (2003), the systematic review method is very different from the traditional narrative review method, as it explicitly aims at minimising bias, mainly by adopting a replicable, scientific and transparent process and attempting to identify, appraise and synthesise relevant studies. Consequently, it has been argued that undertaking a systematic review can improve the quality of a literature review.

In the following section, the review protocol used for the purpose of this review is presented, including the search strategy for identification of relevant studies, the criteria for inclusion of studies in the review, and the procedures and techniques used for synthesising relevant empirical evidence related to the topic.

2.3.1 SEARCH STRATEGY AND INCLUSION CRITERIA

When conducting a literature review, it is important to arrive at a complete, or at least representative, coverage of the literature, in order to reduce bias and provide the best possible foundation for future research (Rousseau et al., 2008; Whittemore & Knafl, 2005). Hence, the identification of relevant studies to be included in the review is often described as the most fundamental challenge in the review process (Petticrew & Roberts, 2006).

Table 1: Search diary

Search string	Database	Scope	Number of entries	Number of relevant
(Risk OR uncertaint* OR Liabilit*) AND ((internationali?ation OR exporting OR "international business" OR "international entrepreneurship"))	ABI/Inform	Abstract	939	56
(risk OR uncertaint* OR liabilit*) AND (internationali* OR exporting OR "international business" OR "international entrepreneurship")	Web of Science	Title	209	16
(Risk OR uncertaint* OR Liabilit*) AND KW (internationali* OR export* OR "international business" OR "international entrepreneurship")	Business Source Premier	Keyword	382	35
((Risk OR uncertaint* OR Liabilit*) AND ((internationali?ation OR exporting OR "international business" OR "international entrepreneurship")))	Scopus	Keyword	82	8

Different search techniques have been found to identify unique references for inclusion in the review (Papaioannou, Sutton, Carroll, Booth, & Wong, 2010). Hence, in order to comprehensively identify existing studies on risk in the internationalisation literature, the review utilised various search techniques, including keyword searching, reference list checking and citation searching. First, as a starting point, a wide variety of electronic databases were searched, including ABI/Inform, Business Source Premier, Scopus and Web of Science. These databases were selected as they were considered the most important bibliographic databases with a focus on business research (Bakker, 2010; Deng, 2012; Pukall & Calabro, 2014). The search strategy was developed around terms for the two central concepts, risk and internationalisation, and searches were restricted to English language full-text publications in peer-reviewed journals. This means that books, book chapters and other non-refereed publications have been omitted. The reason for limiting the review to peer-reviewed journal articles was because these have been subject to peer-review and are often considered validated knowledge (Keupp, Palmié, & Gassmann, 2012; Podsakoff, MacKenzie, Bachrach, & Podsakoff, 2005).

Keywords were extracted from studies identified as part of a scoping review conducted prior to the systematic review (Petticrew & Roberts, 2006), and synonyms and related keywords were identified using a subject thesaurus. As illustrated in Table 1, the keywords were constructed into search strings using Boolean operators. Second, reference lists for included papers were checked and relevant references that were not identified from keyword searching were added (Horsley, Dingwall, & Sampson, 2011). Third, citation searching was used to check for missing studies, by identifying articles citing the key articles identified via conventional keyword searching and reference list checking (Webster & Watson, 2002). Hence, a number of precautions were taken to ensure that all relevant studies were included in the review.

Figure 1: Flow diagram of literature selection process

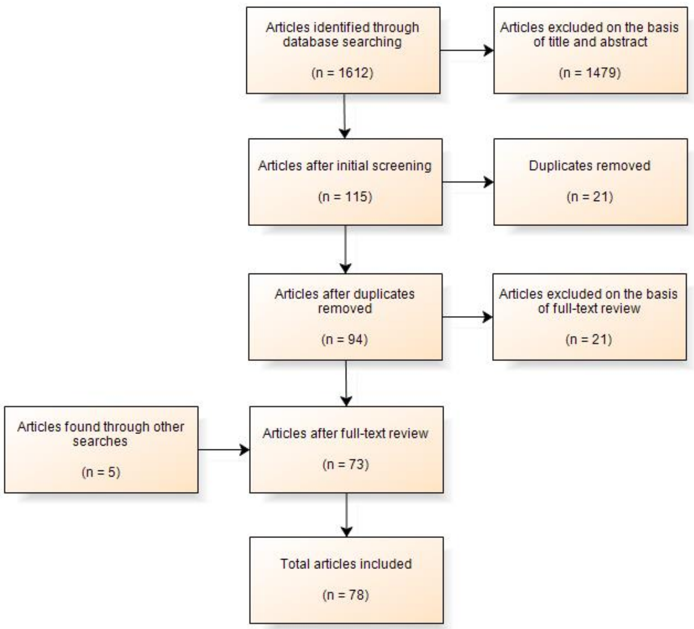


Figure 1 provides an overview of how the selection of articles to be included in the review was made, including the number of potentially relevant studies identified, from what sources, and how the number of articles to be included was reduced. As illustrated in Figure 1, 1.612 articles were initially identified by searching electronic databases. Out of these potentially relevant studies, 1479 articles were excluded based on title and abstract, as they were not relevant to the review. Articles were considered relevant if they satisfied a number of eligibility criteria. First, the articles had to focus on risk in an internationalisation perspective to be considered eligible for the review. Thus, articles that primarily focused on risk, but not internationalisation were not included. In addition, studies that focused on internationalisation, but not risk were also excluded from the review. Second, to ensure that articles included in the review were of appropriate standard, articles had to be published in journals listed in either the Journal Citation Report or SCImago Journal Ranking. After cleaning for duplicates, the number of articles eligible for full-text screening was reduced to 105. Next, another 21 articles were excluded based on a review of the full text, as these studies did not satisfy the eligibility criteria mentioned above. Finally, reference lists checking and citation searching identified five articles not identified from keyword searching, which were then added. Thus, the total number of articles included in the review was 78.

An overview of the articles included in the review is presented in Table 2 in terms of journal and year of publication. This overview shows that more than half of the articles identified and included in the review were published within the last five years, and they were predominantly published in international business journals.

Table 2: Summary of reviewed publications by source and year

Journal	1982	1985	1992	1994	1995	1996	1998	2000	2002	2003	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Academy of Management Journal								1														1
Asia Pacific Business Review																					1	1
Asia Pacific Journal of Management																		1				1
British Journal of Management																				1		1
Business horizons															1	1						2
Canadian Journal of Administrative Sciences													1									1
Entrepreneurship & Regional Development																		1				1
Entrepreneurship Theory and Practice									1													1
European Business Review																		1		1		2
Frontiers of Business Research in China														1			1					2
International Business Review						1					1	1			1	1	1	3	1	2		12
International Journal of Organizational Analysis																	1					1
International Marketing Review												1	1	1								3
International Review of Financial Analysis														1							1	2
International Small Business Journal																	1					1
Journal of Business Research									1		1					1					1	4
Journal of International Business Studies	1		1				1	1		1							2	1	1	1		10
Journal of International Economics																				1		1
Journal of International Entrepreneurship												1				1			2			4
Journal of International Management							1		1							1						3
Journal of International Marketing				1														1				2
Journal of Management & Organization																			1			1
Journal of Risk Research																	1					1
Journal of Small Business and Enterprise Development														1								1
Journal of World Business										1			1				1			2	1	6
Management Decision		1										1						1				3
Management International Review					1						1					1	1					4
Multinational Business Review											1		1									2
Strategic Management Journal										1						1	1			1		4
Total	1	1	1	1	1	1	2	2	3	3	4	4	4	4	2	7	10	9	5	9	4	78

2.3.2 DATA SYNTHESIS

Data synthesis refers to the '*systematic accumulation, analysis and reflective interpretation of the full body of relevant empirical evidence related to a question*' (Rousseau et al., 2008, p. 505). Synthesis therefore concerns making connections between the different studies, which is why the process of data synthesis can be compared to the process of assembling a jigsaw puzzle of evidence (Petticrew & Roberts, 2006).

Different methods are available for synthesising the findings of the studies included in the review (Dixon-woods, Agarwal, Jones, Young, & Sutton, 2005), which can broadly be categorised as integrative and interpretive (Noblit & Hare, 1988). For the purpose of this study, 'narrative synthesis' was used as the method of synthesis (Denyer & Tranfield, 2006), as it allowed synthesis of both quantitative and qualitative studies within a single review (Dixon-woods et al., 2005). Narrative synthesis '*focuses on how studies addressing a different aspect of the same phenomenon can be narratively summarized and built up to provide a bigger picture of that phenomenon*' (Denyer & Tranfield, 2006) and can be seen as a cumulative process, where existing literature is narratively summarised and integrated in order to provide a bigger picture of that phenomenon (Hammersley, 2001).

Data synthesis was broken down into three steps: (1) organising the literature into themes, (2) analysing the findings within each of the themes, and (3) synthesising the findings across all included studies (Petticrew & Roberts, 2006). As a first step in the analysis, information from the included articles were extracted, coded, and categorised (Noblit & Hare, 1988). Following previous reviews, information about the purpose, methodology, sample and main findings was extracted from all included articles using a predefined data extraction form (e.g. Cacciotti & Hayton, 2015; Keupp et al., 2012; López-Duarte, Vidal-Suárez, & González-Díaz, 2015; Peiris, Akoorie, & Sinha, 2012). This was an important step in the review and helped create an audit trail and enhance the transparency of the review process (Petticrew & Roberts, 2006). Next, drawing upon the data extraction form, the included articles were organised and grouped into themes, based on the purpose and main findings. Third, the findings across all studies within each theme were synthesised using cross-case (or cross-study) analysis and similarities and differences between the studies were identified (Dixon-woods et al., 2005). The overall purpose of this step was to produce an overall summary of the findings within each theme.

2.4 RESULTS OF THE REVIEW

In the following section, the results of the review of existing literature on risk and internationalisation are presented. All articles included in this review were summarised in terms of purpose, methodology, sample and key findings. The summary of the articles included in the review is presented in the appendix. One of the ambitions of this paper was to thematically map existing research on risk in relation to internationalisation. Based on the review, three themes or streams of research were identified. The first theme revolved around the role and impact of risk in firm internationalisation. The second theme focused on manager's experience of risk in internationalisation. Finally, the third theme focused on how firms and decision-makers cope with risks in the internationalisation process in order to increase involvement in foreign markets. Below, an overall summary of the findings within each of these themes is presented.

Table 3: Overview of existing literature by theme

Theme	Key question	No of articles
Relationship between internationalization and risk	To what extent and how does internationalization influence risk?	**21**
Risk and internationalization decision making	To what extent and how does risk influence strategic decisions related to internationalization, including how, when and where to internationalize?	**38**
Risk accommodation in the internationalization process	To what extent and how can firms and decision-makers deal with the risks associated with internationalization?	**19**

2.4.1 THE RELATIONSHIP BETWEEN RISK AND INTERNATIONALISATION

One of the themes that emerged from the thematic analysis of the articles included in the review is the risk implication of internationalisation. This group of studies focuses on examining the relationship between firm internationalisation and risk, that is, how internationalisation and international diversification affect different types of risk. The review of existing studies within this theme shows how previous studies fail to agree on the effect of increasing involvement in foreign markets on risk and performance. In general, two competing argument can be found. One group of studies argue that internationalisation provides a means for reducing risk, by increasing the scope of operation across countries and reducing dependence on any single country (e.g. Elango, 2010; Rugman, 1976). For instance, Kim, Hwang and

Burgers (1993) found that international diversification was associated with both higher returns and lower risk. Similarly, Qian (1996) concludes that increasing involvement in foreign markets is positively related to profitability and inversely related to risk, as firms with foreign operations are in a better position to reduce costs, access important resources and extend products' life cycles.

By contrast, another group of studies argues that increasing involvement in foreign markets does not have a general negative impact on organisational risk (e.g. Reuer & Leiblein, 2000) or even increases risk, as firms venturing abroad are incurring costs and disadvantages due to 'liabilities of foreignness' (e.g. Krapl, 2015; Olibe, Michello, & Thorne, 2008). More specifically, it is argued that the additional risks faced by doing business in foreign markets are greater than the diversification benefits, which is why internationalisation leads to an increase in the firm's level of systematic risk (e.g. Reeb, Kwok, & Baek, 1998). In a recent study, Olibe, Michello and Thorne (2008) examined the relationship between international diversification in terms of foreign assets, foreign sales, number of foreign countries, number of foreign segments and systematic risk. Their findings suggest that the costs of internationalisation outweigh the benefits of international diversification, as firms venture into foreign markets that they know little about. In other words, international diversification was found to be positively associated with systematic risk. Thus, in sum, the number of empirical studies within this theme is rather limited and the research findings have so far been inconclusive as to whether increasing involvement in foreign markets has a positive or negative impact on risk. Hence, the empirical evidence on the risk effects of internationalisation is mixed. International diversification may therefore best be described as a double-edged sword, as internationalisation can decrease risk due to diversification benefits, but it also exposes firms to additional sources of risk.

Given these inconclusive findings, a number of studies have started to explore potential moderators that may affect the direction and/or strength of the relationship between internationalisation and risk. For instance, Qian and Li (1998) demonstrate the importance of global diversification in understanding the relationship between internationalisation, risk and performance, by showing how low or high global diversification is influencing the risk-performance relationship negatively. Firms will face increasing transaction costs as global market diversification increases, due to the differences encountered across different countries and continents. Hence, while internationalisation initially reduces the amount of risk due to diversification benefits, at some point, the additional risks associated with internationalisation may erase the advantages associated with international diversification, resulting in increased risk and negative returns, making moderate levels of internationalisation optimal (Fernhaber, 2013).

Others studies have indicated that knowledge intensity and industry context may also help explain the inconclusive findings on the relationship between internationalisation and risk (Andersen, 2012). Specifically, Andersen (2012) found that internationalisation has a direct negative impact on downside risk for firms operating in knowledge-based service industries (e.g., advertising, software, auditing, and consulting), while having an adverse risk effect among firms in capital-base services (e.g., transportation, communication, and energy distribution). According to Andersen (2012), the reason for this could be that knowledge-based resources are more mobile and flexible, whereas capital-based services require high fixed asset investments. Hence, given the flexible and mobile nature of knowledge-based resources it is possible for knowledge-based firms to achieve a more economical international expansion. Similarly, Belderbos, Tong and Wu (2014) have found that the relationship between internationalisation and downside risk is contingent on the host country environment. More specifically, they argue that international diversification is less likely to reduce downside risk when operating in host countries with similar labour cost developments, whereas it is more likely to reduce downside risk if a firm's organisation facilitates the coordination of cross-border activities, enabling the exploitation of the shifting opportunities. Hence, studies are now starting to address the issue of these conflicting findings by exploring different moderating factors.

2.4.2 RISK AND INTERNATIONALISATION DECISIONS

A second theme emerging from the thematic analysis of the articles included in the review was related to the implications of risk for strategic decisions related to internationalisation, including how, when and where to internationalise. The findings of the review show that a significant number of studies have focused on decision-making in the internationalisation process under conditions of risk, by explicitly examining how risk influences internationalisation decision-making. Out of the 78 articles reviewed, the majority of them, i.e., 38, were related to this topic. In general, empirical evidence suggests that risk - in particular decision-makers' subjective assessment of the risk inherent in international activities – can have a significant impact upon internationalisation decision-making. For instance, risk has been found to be an important factor in explaining internationalisation propensity (Cavusgil & Naor, 1987), degree of internationalisation (Acedo & Florin, 2006), speed of internationalisation (Acedo & Jones, 2007), foreign operation mode

(Ahmed et al., 2002; Demirbag et al., 2010; Schwens et al., 2011), and the number of countries in which the firm is actively involved (Kiss et al., 2013).

One group of studies is concerned with the effect of risk on a firm's propensity to internationalise, that is, the decision to internationalise and enter foreign markets. In general, these studies suggest that higher levels of perceived risk by decision-makers in relation to international business activities are negatively associated with internationalisation propensity and commitment. Simpson and Kujawa (1974) found significant differences in managerial perceptions of risk between decision-makers in exporting and non-exporting firms. They claim that decision-makers in exporting firms perceived lower risk associated with doing business in foreign markets than do decision-makers in non-exporting SMEs. Similarly, Cavusgil and Naor (1987) suggest that negative perceptions towards exporting, in terms of perceived benefits and risks, created an unwillingness among decision-makers to do business in foreign markets. More recently, Acedo and Galan (2011) argue that SMEs' commitment to internationalisation is, at least partly, explained by decision-makers' perception of risks. More specifically, SMEs are more committed to internationalisation when decision-makers perceive less risk and/or greater control over outcomes in their foreign activities. Collectively, these studies suggest that perceived risk is a barrier to internationalisation; therefore it is an important concept in understanding SMEs' propensity to start exporting and their commitment to internationalisation.

Others have focused on the impact of risk on firms' internationalisation patterns, in terms of scope (i.e., number of foreign country markets), speed (i.e., the length of time over (or within) which certain targets are achieved) and extent (i.e., percentage of foreign sales to total sales). Acedo and Florin (2006) found that managerial perceptions of risk associated with international expansion strategies were negatively related to the firm's degree of internationalisation, in terms of foreign sales to total sales and level of internationalisation commitment. In other words, it was found that lower levels of perceived risk resulted in higher levels of commitment to internationalisation and a higher percentage of sales revenues coming from foreign markets. By contrast, in a more recent study, managerial perceptions of risk were found to influence new ventures' internationalisation patterns in terms of scope, but not intensity (Kiss et al., 2013). Hence, managerial perceptions of risk are likely to influence the number of countries in which the firm conducts business, but not the firm's percentage of the foreign revenues to total revenues. In a similar study, Jiménez, Luis-Rico and Benito-Osorio (2014) have examined the influence of political risk on the scope of internationalisation. Interestingly, the authors found a positive relationship between political risk and firm's scope of internationalisation, especially in industries subjected to higher levels of regulation. They argued that a firm's exposure and experience dealing with political risk is an important source of political capabilities, which is why firms exposed to political risks are more likely to be in a favourable position to negotiate, lobby, and obtain preferential trade conditions in countries characterised by high level of political uncertainty. Hence, they concluded that while political risk is typically described as a threat for firms seeking to expand abroad, political risk can also be a source of opportunities and firm-specific advantage. Risk has also been found to influence speed of internationalisation. For instance, Acedo and Jones (2007) found that decision-makers' risk perception is the key psycho-cognitive characteristic explaining rapid internationalisation. More specifically, it was found that firms with decision-makers who perceived lower levels of risk associated with internationalisation were more likely to internationalise more rapidly. Collectively, these studies emphasise the importance of risk, including managerial perceptions of risk, in explaining variance in firms' internationalisation patterns.

Finally, a noteworthy group of studies focused on entry-mode decision-making under uncertainty by examining how risk and uncertainty influence entry and foreign operation mode decisions. The choice of foreign market entry mode is considered a key strategic decision for a firm seeking to grow internationally (Brouthers & Hennart, 2007). The issue of risk and uncertainty has been one of the most significant and critical topics in the research on foreign operation modes (Ahsan & Musteen, 2011). Previous studies have examined how different sources of risk, including cultural risk (Contractor & Kundu, 1998; Tsai & Cheng, 2002), behavioural uncertainty (Anderson & Gatignon, 1986), political risk (Delios & Henisz, 2003a, 2003b), market uncertainty (Brouthers, Brouthers, & Werner, 2008; Li & Li, 2010) and exchange rate uncertainty (Campa, 1993; Cuypers & Martin, 2010), influence the choice of entry mode in foreign markets. In general, these studies highlight the influence of risk and uncertainty in the firms' entry mode decisions. Recently, it was found that firms favour intermediate entry modes, such as joint ventures, over hierarchical entry modes, such as wholly owned subsidiaries, when institutional risk and the risk of political intervention increases (Demirbag et al., 2010). Similarly, empirical evidence shows how SMEs are more likely to use equity-based entry modes when key decision-makers perceive low differences between the domestic and foreign markets and when the probability of future events within a foreign country having an adverse effect on the functioning of the firm is perceived to be low (Pinho, 2007). However, the impact of risk on entry mode decisions may differ depending on the type of firm. For instance, based on a study of how the nature of uncertainty determines the mode of entry into international markets in service firms, Sanchez-Peinado and Pla-Barber (2006) found that the influence of uncertainty over entry mode choice differs depending on the type of the service offered in international markets. More specifically, their findings showed how knowledge-intensive service firms preferred high-control entry modes in the face of country and cultural risk, given the lower investments required to initiate international operations and the issues related to the transfer of knowledge to third parties. By contrast, capital-intensive service firms were found to behave similarly to manufacturing firms and preferred low-control entry modes in the face of high risk, as these entry modes require lower resource commitments.

2.4.3 RISK ACCOMMODATION IN THE INTERNATIONALISATION PROCESS

The final theme identified was related to risk accommodation, that is, the ways in which firms and decision-makers cope with the risks associated with internationalisation, in order to increase their involvement in foreign markets (Liesch et al., 2011). In total, 19 of the 78 publications reviewed were categorised within this theme (three conceptual and fifteen empirical). It has been argued that understanding how decision-makers cope with risk, when expanding into foreign markets, is critical, as risk must be considered sufficiently low to allow international involvement to proceed (Liesch et al., 2011). Given that firms are generally believed to experience higher levels of risk in doing business in foreign markets compared to domestic markets, managing risk has been described as one of the most essential objectives of decision-makers in firms operating internationally (Ghoshal, 1987; Hagigi & Sivakumar, 2009). Hence, it is not surprising that this theme has attracted the attention of scholars within the fields of both internationalisation and international entrepreneurship.

Managing risks associated with internationalisation has been described as a complicated task, as it involves many dimensions and variables (Hagigi & Sivakumar, 2009). Existing studies have focused explicitly on how firms, including both multinationals and SMEs, cope with the wide variety of risks, including political risks (Alon & Herbert, 2009; Iankova & Katz, 2003; Keillor, Wilkinson, & Owens, 2005), foreign exchange risks (Jacque, 1981; Javaid, 1985) and country risks (Di Gregorio, 2005). Taken together, existing studies identify a wide variety of strategies and coping mechanisms used for dealing with risks, when engaged in international business. Miller (1992) broadly distinguishes between financial and strategic responses to risk. Previous studies demonstrate how financial risk management instruments are being widely used by firms to reduce risk in the internationalisation process. For instance, firms have been found to use insurance to protect against the risks of doing business and investing in foreign countries (Mascarenhas, 1982). In addition, firms have been found to use hedging and foreign currency derivatives in order to eliminate foreign exchange risks and avoid situations that could threaten the well-being of the company (Allayannis & Ofek, 2001; Batten et al., 1993; G. W. Brown, 2001). However, hedging or insurance instruments cannot be used to deal with every type of risk faced, when seeking to expand international operations (Hain, 2011; Miller, 1992). Thus, financial risk management instruments are not sufficient for dealing with international risks, which is why they must be supplemented by strategic actions (Shrader et al., 2000).

Given that the amount of risk associated with internationalisation is a function of the existing market commitment and the existing market uncertainty (Figueira-de-Lemos et al., 2011; Johanson & Vahlne, 1977), firms may reduce the amount of risk either by reducing uncertainty or by reducing commitment. One common way to cope with the risks associated with internationalisation is through the choice of appropriate entry mode strategies (Liesch et al., 2011). Each different entry modes is associated with different degrees of control, resource commitment, risk and flexibility (Brouthers & Hennart, 2007; Erramilli & Rao, 1993). Firms can substantially reduce the risk associated with internationalisation by using low-commitment entry modes such as exporting or joint ventures when exposed to high risk (Slangen & van Tulder, 2009). Other strategies and coping mechanisms used for dealing with risks include: avoiding high-risk foreign markets (Mascarenhas, 1982; Miller, 1992), internationalising in small incremental steps (Barkema & Drogendijk, 2007; Figueira-de-Lemos et al., 2011), following a dominant internationalisation path (Hashai, 2011), reducing exposure to other types of risk (Fernhaber & McDougall-Covin, 2014), engaging in political activities (Iankova & Katz, 2003; Keillor et al., 2005), and using locally recruited senior staff (Bassino, Dovis, & van der Eng, 2015). Hence, the extant literature identifies a wide variety of strategies and coping mechanisms available for firms to deal with their concerns about risk, enabling them to commit to internationalisation.

It has been argued that the many types of risk faced when engaged in international business are interrelated, which is why the reduction of one type of risk may result in increased exposure to another type of risk (Hagigi & Sivakumar, 2009; Werner et al., 1996). Hence, dealing with risks in relation to internationalisation is best described as a trade-off exercise between different types of risk (Miller, 1992). Shrader, Oviatt and McDougall (2000), for example, demonstrated how international new ventures managed strategic international risks by exploiting trade-offs among foreign revenue exposure, country risk and entry mode commitment. Similarly, a more recent study revealed how international new ventures managed the high levels of risk associated with early and accelerated internationalisation by limiting their focus on product innovation and/or attaining a larger firm size (Fernhaber & McDougall-Covin, 2014). Hence, the authors argued that firms and decision-makers can cope with the higher levels risk associated with internationalisation through limiting other sources of risk.

2.5 REFLECTIONS AND AVENUES FOR FUTURE RESEARCH

While the topic of risk and internationalisation has received noteworthy attention in the existing literature, as illustrated by the number of publications identified, the topic has by no means been exhausted. This review of the existing literature demonstrates that risk is a pivotal construct in internationalisation. However, the review also illuminates a number of challenges and opportunities for researchers to consider. In the following section, promising avenues for future research within the topic of risk and internationalisation are suggested by building upon the review of the existing literature.

2.5.1 THE RELATIONSHIP BETWEEN INTERNATIONALISATION AND RISK

The relationship between internationalisation and risk appeared as an important theme in the literature. More specifically, these studies have examined the risk effects of internationalisation. As demonstrated by the review of the existing literature, the limited amount of available evidence on the effects of internationalisation on risk appears to be inconclusive, demonstrating no effects, positive relations and inverse relations. This in turn suggests that internationalisation may be best described as a double-edged sword, that is, something that can have both favourable and unfavourable consequences. There may be a number of reasons why the relationship between internationalisation and risk remains equivocal. Eventually, it all comes down to a question of whether the benefits associated with internationalisation (i.e., diversification benefits) outweigh the additional sources of risk faced when engaged in international business or vice versa. Thus, the question of whether and how internationalisation affects risk remains unanswered, which is why the nature of the internationalisation–risk relationship remains an important research question.

This review found that scholars have only recently started to address the issue of these conflicting findings, which is why a promising avenue for future research is to explore the role of moderating factors. It has been suggested that combining a market-based view and resource-based view from strategic management with internalisation theory from international business provides a promising theoretical lens for exploring potential moderators (Matysiak & Bausch, 2012). This suggests that future studies should look primarily for firm-level moderators, but also look for moderators at industry-level and country-level, which has previously been neglected (Belderbos et al., 2014). For instance, Hennart (2007) suggests that future studies should explore to what extent variables such as the size of a firms home market, the cultural diversity of the markets entered by the firm, and the firms endowments of intangible resources. Similarly, Andersen (2012) suggests that industry-specific circumstances, as well as firms' ability to avoid or mitigate risks and take advantage of new market opportunities, are important moderators. Preliminary micro-level studies further emphasise the applicability of such a perspective on the internationalisation-risk perspective. For instance, Venzin, Kumar and Kleine (2007) found that the nature of the internationalisation-performance relationship is moderated by industry characteristics, market-based factors and firm-specific factors. Hence, it is argued that a promising avenue for future research is to focus on how firm-level, industry-level and country-level factors have an impact on the relationship between internationalisation and risk.

In addition, the review of the existing literature found only a limited exploration of the internationalisation-risk relationship for SMEs in particular. It is generally assumed that SMEs are in a more vulnerable and risky position, when engaged in international business, compared to large multinational corporations (Hilmersson, 2014).

2.5.2 RISK AND INTERNATIONALISATION DECISION-MAKING

The review of internationalisation research on risk showed that a significant amount of attention has been devoted to the impact of risk on internationalisation decision-making (38 of 78 publications). However, the review also highlighted important gaps in existing literature, which will be elaborated on below.

First, the review of existing literature demonstrates a limited exploration of decision-makers' perceptions in studies examining how risk affects strategic decisions in relation to firm internationalisation. Consequently, little is known about how managers make sense of foreign environments, including their perception of risk, and whether and how their perceptions affect internationalisation decisions. This is problematic, considering that managerial perceptions, including managerial perceptions of risk, have been described as *'crucial microfoundations for modelling heterogeneity in firm-level internationalization strategies and performance'* (Maitland & Sammartino, 2015). The review demonstrates how previous studies mostly use 'objective' risk measures when examining the implications of risk on strategic decisions related to internationalisation. For example, political and country risks have been measured using a variety of political and country risk indicators, including the Euromoney Country Risk Index (Sanchez-Peinado & Pla-Barber, 2006; Shrader et al., 2000; Xu, Hu, & Fan, 2011), OECD Consensus Country Classifications (Kiss et al., 2013), International Country Risk Guide (Quer, Claver, & Rienda, 2012), and the Political Constraint Index (Jiménez & Delgado-García, 2012; Jiménez et al., 2014; Jiménez, 2010). Similarly, cultural risk has often been measured using aggregated data from secondary sources in order to categorise countries according to their national culture and to determine the cultural distance between them (e.g. Quer et al., 2012; Salomon & Wu, 2012; Sanchez-Peinado & Pla-Barber, 2006; Xu et al., 2011). Hence, the role of the boundedly rational decision-maker remains unexplored in the existing literature. While many of these objective measures of risk are useful, especially when examining the outcome of risk-related behaviours (i.e., the dependent variable), managerial perceptions of risk are needed when trying to examine and explain managerial behaviour (Bromiley, McShane, Nair, & Rustambekov, 2015). Thus, objective measures of risk are appropriate when examining the impact of internationalisation on risk, whereas perceptual measures of risk are appropriate when examining the impact of risk on decision-making in relation to internationalisation. According to Boyd, Dess and Rasheed (1993, p. 209), perceptual measures 'enable the researcher to depict a firm's environment from the perspective of organisational members of key informants'.

The heavy reliance on objective measures of risk is problematic for a number of reasons. First, it has been argued that decision-makers' perception of risk is not always in accordance with 'objective' risk measures (March & Shapira, 1987). For instance, Kiss, Williams and Houghton (2013) found that managers are cognitively biased in their assessment of risk in relation to internationalisation, which is why decision-makers typically overestimate or underestimate the amount of risk associated with internationalisation choices compared to an objective standard. Second, previous studies within strategic management have emphasised the criticality of individuals in explaining and understanding strategic decision-making (Gavetti, 2012; Kaplan, 2011). In general, it is argued that decision-makers act according to their perceptions (Narayanan, Zane, & Kemmerer, 2010), which is why it is managers' perception of risk that drives decision-making (Bromiley et al., 2015). Decision-makers' subjective judgement or appraisal of risk has also been identified as a key driver in internationalisation decision-making (Acedo & Florin, 2006; Acedo & Jones, 2007; Cavusgil & Naor, 1987). For these reasons, it has also been argued that researchers should increasingly use perceptual measures (Santangelo & Meyer, 2011).

Second, little is known about the factors influencing managerial perceptions of risk in international activities, which is why more research is needed in order to explain and understand why decision-makers' subjective assessment of risk in international activities are either congruent or unaligned with objective risks. Understanding how decision-makers perceive the risks of internationalisation, including the factors shaping decision-makers' perception of risk in foreign activities, is important given the centrality of risk and risk perception in internationalisation decision-making. Such studies will contribute to the existing literature by providing a clearer understanding of the ways in which individuals form judgements about the risks they face (Wilkinson, 2001). Hence, in line with Maitland and Sammartino (2015), I argue that little is known about how managers make sense of foreign environments, including their subjective judgement or appraisal of risk, and whether and how their perceptions and judgements affect internationalisation decisions. Issues such as these might be more productively investigated through qualitative methods, as qualitative research is useful when the purpose is to understand something from the subjects' own perspectives and to elicit their perceptions (T. H. Das, 1983; Silverman, 2013). By examining risk as it is experienced by decision-makers (or international entrepreneurs) using qualitative methods, it is possible to further our understanding of managerial conceptions of risk, including the different types of factors that that are somehow related to decision-makers' experience of risk and the cognitive processes related to risk perception (Bromiley et al., 2015; Hawkes & Rowe, 2008). However, consistent with the general tendency in international business literature, the review found that existing studies on this topic relied almost entirely on quantitative methods and on archival data or survey data (Nummela & Welch, 2006; Rebecca Piekkari & Welch, 2006; Yang, Wang, & Su, 2006). Thus, it is argued that qualitative studies examining risk, as experienced by key decision-makers, represent a promising avenue for future research.

2.5.3 RISK ACCOMMODATION IN THE INTERNATIONALISATION PROCESS

The findings from the review demonstrate that little is known about how firms and decision-makers cope with risk when seeking to expand abroad, in particularly in the context of small and medium-sized firms. As previously, mentioned, 19 of the 78 publications reviewed focused on the ways in which firms and decision-makers cope with the risks associated with internationalisation. Out of those 19 articles, only four focused on small and medium-sized enterprises (SMEs); studies focusing on MNEs are overrepresented. Despite the lack of attention, risk accommodation in SMEs seeking to expand their business abroad is an important topic. It is generally acknowledged that SMEs play an important role in most economies worldwide and are increasingly seeking to expand their business abroad. For instance, research demonstrates how an increasing number of firms now pursue internationalisation right from their birth (Cavusgil & Knight, 2015; Fan & Phan, 2007; Oviatt & McDougall, 2004). Thus, while it was once primarily MNEs that were faced with the challenges associated with internationalisation, SMEs are increasingly being exposed to many of the same risks (Etemad, 2004). In addition, compared to larger firms, smaller firms are faced with higher risk when increasing their involvement in foreign markets (Hilmersson, 2014; Lu & Beamish, 2001). SMEs typically lack the organisational slack needed to absorb negative outcomes and recover from it, which is why internationalisation is likely to present higher risk for this group of firms (Child & Hsieh, 2014; Oviatt et al., 2004). This is particularly true for SMEs that internationalise early and aggressively (i.e., in multiple markets and/or deriving significant turnover from foreign markets) (Fernhaber & McDougall-Covin, 2014; Shrader et al., 2000). In addition, it has been suggested that SMEs, because of their smaller size, are less able to manage risk compared to larger firms that are more financially secure and experienced (Brustbauer, 2014; Freeman, Edwards, & Schroder, 2006). This illustrates that it is not only MNEs that face the wide variety of risks associated with internationalisation; SMEs, whose survival is more easily threatened due to their unique size-related challenges and resource scarcity, are also exposed to these risks. Hence, successful risk management is arguably even more important in internationalising SMEs.

Risk accommodation is a major issue for SMEs; however, many lack the requisite resources and have no reliable mechanisms to support their risk-accommodation activity. For instance, Hain (2011) found that SMEs tended to have a less sophisticated risk accommodation approach, suggesting a significant correlation between company size and level of risk accommodation sophistication. Similarly, Henschel (2009) found that the quality of risk accommodation is influenced by company size. Taken together, these studies suggest that SMEs are likely to act differently when coping with perceived risks, because they lack the skills, resources, and time to engage in such activities, which is why studies focusing specifically on risk accommodation in SMEs are needed.

In addition, while previous studies provide a long list of risk accommodation mechanisms, existing research falls short in identifying the conditions under which these different risk accommodation mechanisms are actually used. Preliminary empirical evidence suggests that the risk accommodation mechanisms used by firms are likely to be influenced by the specific risks faced (Keillor et al., 2005). In addition, the levels of resources committed to mitigating risks has been found to be influenced by the level of exposure (Iankova & Katz, 2003). Finally, these risk accommodation mechanisms are likely to be influenced by the characteristics of the company, as company size and level of risk management sophistication has been found to be correlated (Hain, 2011). While the Upper-Echelon Theory has not been widely used within the IB field, it may prove to be a promising theoretical lens for examining and explaining risk accommodation behaviour in firms, including SMEs. According to the Upper-Echelon Theory, strategic choices are best described as the outcome of managerial sense-making (Hambrick & Mason, 1984; Hambrick, 2007). The main premise of UET is that different decision-makers interpret the same strategic situations or environment in different ways and that decision-makers act upon their interpretation of the strategic situation they face (Hambrick, 2007). Thus, variation in firms' strategic choices and outcomes is at least partly explained by decision-makers' cognitive capacities and predilections. This, in turn, makes the individual decision-maker and their perceptions and interpretations out to be an important variable in the attempt to explain strategic decision-making. This suggests that it is the decision-maker's subjective judgement and assessment of risks that is relevant for understanding and explaining the ways in which firms and decision-makers deal with the risks associated with internationalisation in order to increase involvement in foreign markets. In addition, it has been argued that risk management could be studied from a practice perspective (Jarzabkowski & Spee, 2009), as researchers have yet to approach risk accommodation from a practice perspective (Miller, 2009).

Table 4: Summary of findings and research gaps

Theme	Findings	Research gaps
1. Relationship between internationalisation and risk	Studies fail to agree on the effect of increasing involvement in foreign markets on risk and performance	Whether and how internationalisation affects risk remains unanswered
	Internationalisation is best described as a double-edged sword, as internationalisation can decrease risk due to diversification benefits, but also exposes firms to additional sources of risk.	Future studies should look primarily for firm-level moderators, but also look for moderators at the industry-level and country-level
2. Risk and internationalisation decision making	Risk is an important barrier to internationalisation and therefore important in understanding SMEs' propensity to start exporting and their commitment to internationalisation	Little is known about how managers make sense of foreign environments, including their perception of risk, and whether and how their perceptions affect internationalisation decisions.
	Risk is an important factor in explaining heterogeneity in firms' internationalisation patterns	The factors influencing managerial perceptions of risk in international activities has received little attention
3. Risk accommodation in the internationalisation process	Dealing with risks in relation to internationalisation is best described as a trade-off exercise between different types of risk	Little is known about how firms and decision-makers cope with risk when seeking to expand abroad, particularly in the context of small and medium-sized firms
	Risk accommodation strategies used by firms are likely to be influenced by the specific risks faced	Existing research fall short in identifying the conditions under which different risk accommodation mechanisms are used
	SMEs tend to have a less sophisticated risk accommodation approach, suggesting a significant correlation between company size and level of risk accommodation sophistication	

2.6 CONCLUSION

The purpose of this study was to use systematic literature review methodology (Tranfield & Denyer, 2003) as a means for reviewing and synthesising existing literature on risk and internationalisation and identifying promising avenues for future research. The review of the existing literature on risk in relation to internationalisation found that risk is a pivotal construct fundamental to the processes of internationalisation. Based on this review, three themes or streams of research were identified. The first theme revolved around the role and impact of risk in firm internationalisation. The second theme focused on managers' experience of risk in internationalisation. Finally, the third theme focused on how firms cope with perceived risks in the internationalisation process in order to increase involvement in foreign markets.

While the topic of risk and internationalisation has received noteworthy attention in existing literature, as illustrated by the number of publication identified, this review shows that the topic has by no means been exhausted. The review of the literature on risk and internationalisation led to the identification of three major gaps, which together provide promising avenues for future research. First, given the conflicting findings in relation to the relationship between internationalisation and risk, more research is needed to explain under what conditions internationalisation is likely to reduce risk and vice versa. Second, the perceptual dimension of risk and its influence on strategic decision-making in relation to internationalisation warrants more attention. In particular, future research should increasingly focus on examining how managers identify and understand risks in relation to internationalisation, including the variety of factors that interact to influence managers' subjective assessment of the risk associated with internationalisation. Third, risk accommodation, that is, the ways in which firms and decision-makers deal with their concerns about perceived risk (Liesch et al., 2011, p. 864), warrants more attention. In particular, given that existing studies focusing on how firms and decision makers cope with risk when engaging in international business have focused primarily on MNEs to the exclusion of SMEs, it is argued that future studies need to focus more on risk accommodation in internationalising SMEs. Furthermore, while several of the reviewed publications provide a list of risk accommodation mechanisms (e.g. Di Gregorio, 2005; Mascarenhas, 1982; Miller, 1992), existing studies do not address how managers select among them, i.e., the determinants of risk accommodation behaviour and their consequences.

Research limitations are inherent in all research studies, including systematic literature reviews. Thus, this review also has a number of limitations that must be made explicit. First, as explained in the review methodology, only studies from peer-reviewed journals were included as part of this review. This means that relevant studies published as book chapters or in conference proceedings may have been omitted. This could potentially have introduced publication bias, if the research appearing in peer-reviewed journals is systematically different from the remaining literature (Kepes, Banks, McDaniel, & Whetzel, 2012). Future reviews may therefore want to include literature that is published in other outlets and compare the results of these studies with those studies published in peer-reviewed journals. Another limitation is that only English-language publications were included in the review. However, this is not considered a major limitation, as English is the preferred language in international peer-reviewed journals.

3 METHODOLOGY

In the previous chapter, the framework for the remainder of the thesis was presented, by discussing the rationale and purpose of the thesis. The following chapter will explain how the thesis will meet those aims. More specifically, the purpose of this chapter is to explicitly present the methodological background and considerations in order to provide a clear description of the specific steps to be followed. The chapter begins with an articulation of the paradigmatic grounding of the thesis, including the rationale for choosing this position. Second, following the description of the paradigmatic grounding of the thesis, the research design is presented, which provides the framework for the collection and analysis of data. Third, the methods and techniques used for data collection are introduced. Fourth, this chapter explains how the data was transformed into findings, including the approach taken to coding over the course of the study. Fifth, issues related to validity and reliability will be discussed, including the steps taken in order to increase the rigour of the research.

3.1 CHOICE OF PHILOSOPHICAL APPROACH

Situating the study within a philosophical tradition is one of the critical decisions related to academic inquiries. Doing research always involves relying upon philosophical assumptions (Hammersley, 2011). These philosophical assumptions go by many names, including worldviews (Creswell, 2014), ultimate presumptions (Arbnor & Bjerke, 2009), philosophical assumptions (Myers, 2009) or paradigms (Kuhn, 1971). While the philosophical assumptions go by many names, they all refer to meta-theoretical assumptions that provides the frame of reference, mode of theorising and modus operandi of the social theorists who operate within them (Burrell & Morgan, 1979, p. 23). All choices made in a research project, including the choice of research questions, research design, and methods of data collection and analysis, are influenced by these philosophical assumptions (Arbnor & Bjerke, 2009). Thus, it has been argued that '*no inquirer ... ought to go about the business of inquiry without being clear about just what paradigm informs and guides his or her approach*' (Guba & Lincoln, 1994, p. 116). Yet, these philosophical assumptions often remain hidden in academic inquiry (Slife & Williams, 1995). In the following section, the philosophical assumptions guiding this study are made explicit by discussing the philosophical positioning of this study. This discussion will enable the reader to better understand the choices made in the thesis and the findings produced.

While the number of philosophical approaches available is many, it was decided to position this study within the tradition of *critical realism*. Critical realism is a post-positivist approach within social sciences situated between positivism and constructivism (Guba, 1990; Kwan & Tsang, 2001; Sayer, 1992). While critical realism is a relatively new philosophy of science, it has received increasing attention and has been suggested as a fruitful alternative to positivism and interpretivism in different disciplines, including economics (Lawson, 1997), strategic management (Fleetwood & Ackroyd, 2004; Tsang & Kwan, 1999), marketing (Easton, 2010; Sobh & Perry, 2006), organisational studies (Reed, 2005) and international business (Morais, 2011; Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki, 2010).

There are a number of motives for the choice of critical realism. First, while critical realism has been proposed as a promising alternative to the paradigm of positivism (Welch et al., 2010, p. 755), existing research on firm internationalisation remains dominated by studies building upon a positivistic philosophical approach. According to Morais (2011, p. 77), critical realism provides a promising meta-theoretical lens for internationalisation research, as it potentially allows researchers to build explanatory theories, by moving retroductively from '*actor's accounts of experiences in the empirical domain of reality to the postulation of plausible structures of entities and respective causal mechanisms in the real domain*'. Second, critical realism was selected because of its inclusion of an interpretive dimension to the study (Sayer, 2000). As mentioned in the introductory chapter, this study was guided by an ambition to contribute to existing internationalisation literature by examining how key decision-makers make sense of international operations and foreign markets in terms of risk, how they deal with their concerns about risk, and how these concerns affect internationalisation decisions. Thus, a philosophical approach was needed that takes into account human agency and managerial discretion, perceptions and experiences.

Critical realism rests on a number of particular assumptions, related to ontology and epistemology (Easton, 2010). The concepts of ontology and epistemology are often discussed in relation to different paradigms and research traditions. Ontology refers to '*assumptions, which concern the very essence of the phenomena under investigation*' (Burrell & Morgan, 1979, p. 1). As emphasized by Bryman and Bell (2015, p. 32), '*[t]he central question here is whether entities can and should be considered objective entities that have a reality external to social actors, or whether* *they can and should be considered as social constructions built up from the perceptions and actions of social actors*'. Hence, ontology has to do with the perception of reality. By contrast, epistemology refers to the '*assumptions about the ground of knowledge, about how one might begin to understand the world and communicate this as knowledge to fellow human beings*' (Burrell & Morgan, 1979, p. 1). Thus, epistemology is concerned with the question of what to consider acceptable knowledge, including what is considered to be the origins, nature and limits of scientific knowledge (Johnson & Duberley, 2000).

Ontologically, critical realism is positioned between realism and relativism (Easton, 2010). Critical realism assumes that there is an objective world, which exists independently of our knowledge of it (Sayer, 2000). This is in contrast with constructivism, where it is believed that no reality exists independent of our thinking about it (Burrell & Morgan, 1979). At the same, critical realism recognises that this objective world can never be fully apprehended, as it is determined and influenced by a number of unobservable structures that can only be incompletely understood (Guba, 1990). Thus, critical realism moves away from what may be referred to as naïve realist position often associated with positivism. Thus, according to critical realism, reality and social phenomena exists not only in the mind, but also in the world. It can therefore be argued that critical realism allows for human agency, while overcoming the weaknesses associated with social constructivism, by acknowledging the socially constructed nature of the social world, without concluding that the social world is purely socially constructed (Ackroyd & Fleetwood, 2000). In other words, critical realism dissociates from naïve realism on the one hand, which assumes that everything real is subject to empirical observation, while on the other hand it dissociates from radical constructivism, which question the existence of reality independently of the social sphere. For example, critical realism acknowledges that decision-makers have a conception of the risk associated with doing business in foreign markets without taking the unwarranted step of concluding that risk is merely a social construction (i.e., risk exists without our knowledge of it).

Within critical realism, it is assumed that reality is stratified rather than flat. Bhaskar (2008) distinguished between three domains of reality: the actual, the real, and the empirical. The real domain refers to '*the structures and powers of objects*' (Sayer, 2000, p. 12). The actual domain refers to '*what happens if and when those powers are activated, to what they do and what eventuates when they do, such as when the bureaucracy's powers are activated it engages in activities such as classifying and invoicing, or the previously idle person does some work*' (Sayer, 2000, p. 12). The empirical domain refers to '*the domain of experience, and insofar as it refers successfully, it can do so with respect to either the real or the actual though it is* *contingent (neither necessary nor impossible) whether we know the real or the actual*' (Sayer, 2000, p. 12). This suggests that critical realism distinguishes between empirical reality, as experienced and perceived by individuals, and the actual reality, as it exists independently of our knowledge of it. In other words, critical realism distinguishes between '*the actual events that are created by the real world and the empirical events that we can actually capture and record*' (Easton, 2010, p. 128). Hence, this critical realism advocates the existence of an objective reality formed of both events and underlying causes, which are not knowable with certainty, despite their objective existence.

This has important implications for how risk is conceptualised and examined in this study. The choice of ontology has implications with respect to whether risk is considered an objective hazard, threat or danger that exists independently or externally to the individuals who perceive and respond to them or whether risks are seen as social constructions (Taylor-Gooby & Zinn, 2006b). As mentioned above, critical realism assumes an ontology that is positioned between realism and relativism. Against this background, the risks associated with internationalisation are conceptualised as real hazards, threats or dangers that exist independently of social or cultural processes, while acknowledging that the meaning and perception of risk is socially constructed and can vary across decision-makers (Lupton, 1999). Thus, the risks associated with internationalisation exist independently of decision-makers' conceptions about the risk associated with doing business in foreign markets. Their conceptions can only be more or less correct, that is, decision-makers can both overestimate or underestimate the risks adhering to doing business in foreign markets. Thus, in relation to this study, this means that the risks associated with internationalisation are considered real, while still acknowledging that risk is, to some extent, socially constructed (Miller, 2009)

Epistemologically, critical realism assumes an eclectic realist/interpretivist epistemology (Easton, 2010). As previously mentioned, epistemology is concerned with the question of what is (or should be) regarded as acceptable knowledge in a discipline, that is, the scientific ideal (Arbnor & Bjerke, 2009; Bryman & Bell, 2015). In other words, epistemology is related to how one can attain knowledge about the reality of social phenomena. Critical realism operates with a scientific ideal that is different from both positivism and social constructivism. While critical realism retains an ontological realism, by assuming that the reality and social phenomena exist independently of our perceptions, it also retains a form of epistemological constructivism and relativism, by arguing that our understanding of this reality is inevitably a construction from our own perspectives and standpoints

(Maxwell, 2012). In other words, while critical realism argues that an objective reality exists independent from the perceptions and actions of social actors, it rejects the positivistic notion that it is possible for the inquirer, to '*step outside the pale of humanness while conducting inquiry*' (Guba, 1990, p. 20). Similarly, Sayer (1992, pp. 5–6) attempts to link these two seemingly contradictory positions, by arguing that all knowledge is theory-laden and influenced by the researchers' world views, cognitive schemes, etc.:

> *'Our knowledge of that world is fallible and theory-laden. Concepts of truth and falsity fail to provide a coherent view of the relationship between knowledge and its object. Nevertheless knowledge is not immune to empirical check, and its effectiveness in informing and explaining successful material practice is not mere accident ... Science or the production of any other kind of knowledge is a social practice. For better or worse (not just worse) the conditions and social relations of the production of knowledge influence its content.'*

Against this background, it becomes clear that critical realism rejects the idea that it is possible to attain a single 'correct' understanding of the phenomenon that we are studying, as researchers are never able to put aside their biases and beliefs in order to describe the world in a completely neutral way. In other words, critical realism is critical to our ability to attain knowledge that mirrors or corresponds to reality and rejects the positivistic epistemology that it is possible to obtain objective knowledge and arrive at the absolute truth. While complete objectivity is considered unachievable, as our knowledge is inevitably interpretive and provisional, critical realism still maintains that objectivity should however still remain a *'regulatory ideal*' (Guba, 1990; Justesen & Mik-Meyer, 2012). In other words, while objectivity, that is, the attainment of knowledge and theories, which mirror or correspond to reality is unachievable, the goal is to retain objectivity as an ideal, by aiming to describe the world as objectively as possible.

In relation to this study, the critical realist epistemology, or scientific ideal, has a number of important implications on how the study was designed and conducted. In general, the ambition in this study was to strive towards a research process characterised by objectivity and neutrality, when examining how decision-makers in internationalising SMEs perceive and cope with the risks relating to internationalisation, while acknowledging that complete objectivity and neutrality was unattainable. This has been achieved by adhering to a research protocol, developing an interview protocol based on the research questions and minimizing my own influence and other sources of bias (Alvesson, 2003). In addition, while the literature on risk and internationalisation was reviewed initially, an effort was made to remain strongly open during the fieldwork (R. R. Sinkovics & Alfoldi, 2012). For a more detailed description of the precautions taken to reduce bias, see section 3.6.

In addition, one of the defining features of critical realism is its focus on explanation rather than prediction or description. According to Wynn Jr. and Williams (2012, p. 793), the ambition in critical realism is to *'specify and describe those elements of reality which must exist in order for the events and experiences under examination to have occurred'*. However, this is constrained by the belief that parts of reality remain hidden from us (Justesen & Mik-Meyer, 2012). Thus, in order to attain knowledge about reality, one must identify the underlying mechanisms governing action by inferring their existence based on the observable experiences we believe to have caused them. This process is referred to as retroduction, which is defined as a '*mode of inference in which events are explained by postulating (and identifying) mechanisms which are capable of producing them*' (Sayer, 1992, p. 107). Thus, according to critical realism, the only possible way to attain knowledge about reality is by examining and analysing the experiences observed and interpreted by the individuals (Wynn Jr. & Williams, 2012). In other words, an explanatory effort starts with actors' own accounts of their experiences.

In relation to this study, this implies that the only way to explain heterogeneities in SME decision-makers' perceptions of risk and the strategies used for coping with these risks is by having a dual focus: the actors involved, including their experiences and subjective interpretations of the risk involved in doing business in foreign markets, and the largely hidden underlying mechanisms and structures that appear to regulate decision-makers' actions and perceptions in relation to risk. Thus, in order to explain heterogeneities in SME decision-makers' perception of risk and the strategies used for dealing with these risks, the individual decision-makers experiences related to firm internationalisation must be considered the empirical focus.

3.2 RESEARCH APPROACH

The research approach refers to the *'plans and the procedures for research that span steps from broad assumptions to detailed methods of data collection, analysis, and interpretation*' (Creswell, 2014, p. 3). When designing a study and planning the research journey, researchers have the option to select between a qualitative research approach, a quantitative research approach, or a combination of the two, which is also referred to as a mixed methods research approach (Creswell, 2014). It would be wrong to assume that one of these research approaches is intrinsically superior, as each research approach has its own advantages and disadvantages. The choice of research approach should therefore be guided by the specific purpose and research question(s) guiding the study (Silverman, 2013). Qualitative research answers very different questions from those addressed by quantitative research, and vice versa (Rosaline, 2008). For instance, qualitative research is appropriate for exploring and understanding the meaning individuals ascribe to a social or human problem, whereas quantitative research, by contrast, is appropriate for testing objective theories (Bryman & Bell, 2015; Creswell, 2014). Hence, while none of the research approaches is intrinsically superior, they may be more or less appropriate depending on the task.

In general, this study had two aims: (1) to examine how decision-makers in internationalising SMEs perceive the risks inherent in doing business in foreign markets and (2) to explore how SMEs and decision-makers cope and deal with the risks related to internationalisation. For that reason a research approach was needed, which was capable of: (1) exploring decision-makers' subjective assessment of risk in relation to internationalisation and (2) identifying and describing the individual and collective actions related to dealing with these risks. For that purpose, it was decided to adopt a qualitative approach, as this approach was believed to fulfil these two criteria.

Qualitative research has been defined as *'an umbrella term covering an array of interpretive techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the world'* (Van Manen, 1979, p. 520). Qualitative research has become increasingly common in social science (Alvesson, 2011), including international business (Doz, 2011). Yet, while qualitative research have a long history within organisational and management research, quantitative research is still predominant compared to qualitative research in international business (Birkinshaw, Brannen, & Tung, 2011). Despite calls for qualitative research, studies adopting a qualitative research approach within international entrepreneurship and international business still remain rare (Coviello & Jones, 2004; Nummela & Welch, 2006). Quantitative research still dominates research on internationalisation, at the expense of methodological pluralism, which constrains the advancement of our understanding related to SME internationalisation (Lamb et al., 2011; R. Piekkari et al., 2009). This is problematic, as qualitative research methods have much to contribute to international business research (Birkinshaw et al., 2011; Doz, 2011), including research on SME internationalisation and international entrepreneurship (Lamb et al., 2011; Nummela & Welch, 2006).

Qualitative research is preoccupied with human experience (Silverman, 2013) and '*seeing through the eyes of the people being studied*' (Bryman & Bell, 2015, p. 404). Hence, qualitative research is also highly compatible with critical realism, according to which, the only way to attain knowledge about reality is through human experience (Sayer, 2000). As explained by Gephart (2004, p. 455), '*qualitative research employs the meanings in use by societal members to explain how they directly experience everyday life realities*'. Similarly, Miles, Huberman and Saldana (2014, p. 11) emphasise, '*qualitative data, with their emphasis on people's lived experiences, are fundamentally well suited for locating the meanings people place on the events, processes, and structures of their lives and for connecting these meanings to the social world around them*'. In other words, the qualitative research approach is an approach used for studying people, including what they say and do, and has its strengths in the exploring understandings, interpretations and perceptions that underlie and influence behaviour (Gill, 2014; Myers, 2009; Pratt, 2009). Thus, qualitative research is appropriate for studying managerial perceptions, that is, managers' constructions of reality, which are central to this study. For that reason, a qualitative research approach was considered appropriate for obtaining a rich and detailed source of explanatory data regarding decision-makers' subjective assessment of the risk inherent in international operations.

In addition, a research approach was needed that allowed me to explore and uncover practices and strategies related to how SMEs and decision-makers deal with their concerns about risk, when doing business in foreign markets. For this purpose, a qualitative research approach was also deemed appropriate. The strength of qualitative research in studying organisational processes and practices was highlighted by Doz (2011, p. 583), who argues '*qualitative research is uniquely situated to 'opening the black box' of how organizational processes, the 'how', 'who', and 'why' of individual and collective action as it unfolds over time*'. In addition, qualitative research involves research in a real-life, natural setting, which is why qualitative research is arguably particularly useful for explaining behaviour, as it allows the researcher to see and understand the context within which decision-makers act (Myers, 2009). Thus, a qualitative research approach was not only useful for determining the risk management strategies and coping mechanisms used by SMEs and their decision-makers in internationalising SMEs, in order to deal with the risks related to internationalisation, but also to explain *why* SMEs and decision-makers behave as they do.

3.3 SELECTION OF RESEARCH DESIGN

The choice of research design is an important choice in any academic inquiry, as it defines the structure of the inquiry and has a direct influence on the collection of data and the analysis of this data (Creswell, 2014). The importance of the research design is emphasised by De Vaus (2001, p. 9), who argues that the role of the research design is '*to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible*'. Thus, the research design provides the strategic framework that guides the research activities to ensure that sound conclusions are reached.

There are many possible research designs, including experimental, longitudinal, cross-sectional and case study designs, each research design having its own set of advantages and weaknesses (De Vaus, 2001). Each research design is therefore appropriate for different situations and circumstances, which is why careful consideration must be given to making decisions related to the choice of research design, to make sure that the most appropriate research design is adopted, considering the context of the study. The choice of research design ultimately depends on the type of research question being posed. Yin (2009) recommends that the selection of research design should be based on three considerations: (1) the type of research question posed, (2) the extent of control and access the researcher has over actual behaviour and events, and (3) the degree of focus on contemporary versus historical events.

For the purpose of this study, a case study design was chosen as the structure of the inquiry. A case study is *'an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident'* (Yin, 2009, p. 18). This definition contains several defining characteristics of case studies. For instance, the definition highlights that case studies focus on examining the cases in context, as opposed to experimental and cross-sectional research designs. Case studies are preoccupied with exploring one or more phenomena, as they take place in its real-life context. In other words, case study research focuses on utilising empirical evidence collected from *'real people in contemporary real-life organizations to make an original contribution to knowledge'* (Myers, 2009, p. 73).

The case study design was determined to be the most appropriate based on the needs of this particular study, including the specific research questions guiding the study as well as the phenomenon under study. One reason for using a case study design was that the purpose of the study was to explore *how* decision-makers in SMEs involved in international business activities perceives the risk to which the firm is exposed when doing business in foreign markets and how they cope with these risks. According to Yin (2009), a case study design is the particularly useful, as a means for answering this type of research questions.

The case study design is widely acknowledged and used in a number of disciplines, including management research (Eisenhardt & Graebner, 2007) and international business research (Ghauri, 2004). A review of articles published in four key IB journals over the period 1995-2005, as well as one journal from 1974 to 1994 shows that the case study design was the most widely used for qualitative research (R. Piekkari et al., 2009). The reason for this is the potential of case studies to generate novel and ground-breaking theoretical insights that can contribute to the contextualisation of general theories in IB (Doz, 2011). In addition, it has been argued that case studies are particularly well suited as a compliment to critical realism, which has been selected as the philosophical approach guiding this study (Easton, 2010; Morais, 2011).

Table 5: Relevant situations for different research strategies (Yin, 2009, p. 8)

Method	Form of research question	Requires control of behavioural events	Focuses on contemporary events
Experiment	How, why?	Yes	Yes
Survey	Who, what, where, how many, how much?	No	Yes
Archival analysis	Who, what, where, how many, how much?	No	Yes/No
History	How, why?	No	No
Case study	How, why?	No	Yes

As illustrated in Table 5, the case study design is considered preferable when 'how' or 'why' questions are being posed and the focus is on complex and contemporary phenomenon within a real life context over which the researcher has little control. The principle aim of this thesis was to explore *how* decision-makers in SMEs involved in international business activities perceives the risk to which the firm is exposed when doing business in foreign markets and how they cope with these risks. In addition, the focus of the study was on a contemporary event, as internationalisation was a recent and ongoing phenomenon in the case firms. In addition, while critical realism is relatively tolerant with respect to different research designs and does not prescribe a specific research design, case studies are well suited for studies positioned within critical realism (Easton, 2010). As discussed earlier, the goal in critical realism is to reveal and explain how underlying mechanisms and structures affect behaviour (i.e., SME internationalisation). Because decision-makers are mostly unconscious about the social structures and underlying mechanisms and because part of reality remains hidden, context becomes important. According to Justesen and Mik-Meyer (2012, p. 20), it is '*through studies of how context interacts with the object concerned that we are able to achieve knowledge of that object that is as precise and correct as possible*'. Thus, the purpose of critical realist studies is to explain in context. Accordingly, case studies are well suited for studies positioned within critical realism and for developing causal explanations and revealing underlying mechanisms (Danermark, Ekström, Jakobsen, & Karlsson, 2002; Welch et al., 2010).

3.3.1 IDENTIFYING AND SELECTING CASES

The selection of cases is an important aspect of any case study design (Farquhar, 2012). In fact, it has been argued that the selection of cases is likely to be the most critical design issue when doing case studies (Ghauri, 2004). Furthermore, as emphasised by Rapley (2014), case study designs are most often based on a relatively small number of cases, at least compared to cross-sectional studies, which is why it is critical that these cases are selected based on analytic and thoughtful reasons. Yet sampling issues are often poorly addressed in the existing literature, including decisions related to the specific sampling techniques used for selecting cases (Coviello & Jones, 2004).

Before selecting cases, it is imperative to define the unit of analysis. The importance of defining the unit of analysis is emphasized by Patton (2002, p. 128), who argues: '*each unit of analysis implies a different kind of data collection, a different focus of analysis of the data, and a different level at which statements about findings and conclusions would be made*'. In case studies, it is possible to select between different types of unit of analysis, including individuals, organisations, events, decisions or time periods (De Vaus, 2001). The unit of analysis for this study consists of both the firm and the individual decision-makers, which are also the two most frequently used units of analysis in the literature on SME internationalisation (Coviello & Jones, 2004). While traditional internationalisation theories focused exclusively on the firm as the unit of analysis, more recent studies on SME internationalisation have started focusing on the individual decision-makers as the unit of analysis (Ruzzier et al., 2006; Wright, Westhead, & Ucbasaran, 2007). The reason for including both the firm and the individual decision-makers as the unit of analysis is that in many SMEs, the individual decision-maker plays a pivotal role in shaping the internationalisation strategies and behaviours (Leonidou et al., 1998; Sommer, 2010). The personal characteristics and interpretations of the individual decision-makers in SMEs are highly likely to influence strategic decisions, including those on internationalisation (Child & Hsieh, 2014; Nielsen & Nielsen, 2011; Oviatt & McDougall, 2005). Only focusing on the firm as the unit of analysis will therefore ignore important dimensions that impact the internationalisation process of SMEs seeking to expand their business abroad (Wright et al., 2007). Yet, almost all previous studies focus on one isolated level of analysis. As a result, there has been a call for multi-level studies in order to advance our understanding of firm internationalisation (Keupp & Gassmann, 2009).

An important design issue is related to the number of cases included in the study. Broadly speaking, case study designs can consist of a single case or multiple cases (Yin, 2009). While there is no correct number of cases to include in a case study design, multiple case study designs have become increasingly common in business and management research (Bryman & Bell, 2015). While it is possible to make theoretical generalisations based on a single case (Flyvbjerg, 2006), others argue that '*theory building from multiple cases typically yields more robust, generalizable, and testable theory than single-case research*' (Eisenhardt & Graebner, 2007, p. 27). This is because as the number of cases increases, so does the opportunity for replicating and testing propositions. This is emphasized by De Vaus (2001, p. 240) who argues: '*Using the logic of replication a single replication tells us something but repeated replications give us more confidence in findings*'. As a result, the more cases are included in the study, the more compelling the findings are likely to be, as the strength of generalisation claims increases (Yin, 2009). Hence, when possible, multiple case study designs should be preferred over single case studies (Dubois & Gadde, 2014). These reasons led to the decision to include multiple cases in this thesis.

As mentioned above, qualitative case studies should rely on purposeful sampling when selecting cases to include. As emphasised by De Vaus (2001), it makes little sense to select cases based on representativeness, as cases are often used for theoretical rather than statistical generalisation. Purposeful sampling is an 'umbrella' concept that embraces different sampling strategies (Fletcher & Plakoyiannaki, 2011). The logic of purposeful sampling lies in the selection of information rich cases, from which the researcher '*can learn a great deal about matters of central importance to the purpose of the research*' (Patton, 1990:169). For instance, Patton (2002) identifies 18 different types of sampling techniques that may be used as a basis for identifying and selecting cases. Common to these sampling techniques is their concern with selecting information rich cases for in-depth study, which can increase learning about the specific topic.

For the purpose of this study, *criterion sampling* was utilized (Patton, 2002). Following criterion sampling, cases are selected based on a set of predetermined criteria's important to the study. In other words, criterion sampling involves selecting cases because they have particular characteristics. First, cases had to be located in Denmark. In addition to being my own country of origin, Denmark was selected as the location for the study because of the dominant role of SMEs in the Danish economy. While SMEs are generally considered to play an important role in most countries (G. A. Knight, 2000), this is particularly true in Denmark, where the contribution of SMEs to the economy is greater than the EU average (European Commission, 2014). In addition, because Denmark is a small open economy that is uniquely vulnerable to the forces of globalisation (Thompson & Kaspersen, 2012), the level of international activity in SMEs is much higher in Denmark than the EU average (European Commission, 2010). Therefore, it was believed that the Danish context was ideal for studying how decision-makers in internationalising SMEs perceive and cope with the risks adhering to doing business in foreign markets.

Second, cases had to be classified as an SME in order to be eligible for inclusion in the study. However, defining SMEs is not a straightforward task, as a number of different definitions of the essential features of SMEs exist (Brouthers & Nakos, 2004). The most commonly used criteria for defining SMEs is size, either measured as the number of employees or turnover, with the majority of studies relying on the number of employees (McAuley, 2010). It has been argued that defining SMEs in terms of number of employees is the most useful discriminator in the context of management research (Burns, 2001), especially considering how SMEs often refuse to share their turnover figures (Ojala & Tyrväinen, 2007). Hence, SMEs are mostly defined as autonomous firms that employ fewer than a given number of employees. However, here again there is variation in defining the upper and lower size limit of an SME. Sometimes SMEs are defined as firms with fewer than 50 employees, fewer than 100 employees, fewer than 200 employees, or even fewer than 500 employees (Coviello & Jones, 2004). Because of the context of this thesis, it was decided to follow the standard EU classification, where SMEs are defined as firms with fewer than 250 employees. This is the most frequently used definition across OECD countries (OECD, 2005), and is also widely used in the literature (Agndal et al., 2008; Galkina & Chetty, 2015; Hilmersson, 2014; Moen, Heggeseth, & Lome, 2015).

Third, given the focus of this study on examining how decision-makers in SMEs perceive and cope with the risks associated with doing business in foreign markets, firms had to be committed to internationalisation in order to be considered eligible for the study. In other words, the firms had to be involved in at least sporadic exporting in order to be considered eligible.

Fourth, in order to gain a deeper understanding of firm behaviour in the internationalisation process, an attempt was made to select varied cases. It has been argued that in order to better understand the internationalisation of SMEs, more research on SMEs in a variety of industries, and not just high tech industries, is required (Andersson, Evers, & Kuivalainen, 2014; Coviello & Jones, 2004). Therefore, it was decided to select cases from a variety of industries. More specifically, cases were selected from four different industries: (1) Manufacturing, (2) ICT, (3) Garment, and (4) Food. Firms from these industries are likely to differ in terms of knowledge domain, that is, the base of knowledge from which their products are developed (Child & Hsieh, 2014) and are likely to face different challenges that constrain their ability to identify and capture opportunities across national borders (Andersson, 2004; Fernhaber et al., 2007). As a consequence, they behave differently in their internationalisation process (Bell, McNaughton, Young, & Crick, 2003). For instance, Bell, Crick and Young (2004) found that knowledge-intensive SMEs were more proactive and structured in their approach to internationalisation, while traditional SMEs tended to adopt a more opportunistic and reactive approach to internationalisation.

Before being able to select the cases to include in this thesis, it was necessary to identify eligible cases. A sampling frame containing eligible cases was created using a company database containing information on all registered companies in Denmark, including facts regarding ownership, turnover, firm size and age, and date of foundation. The goal of this process was to ensure that the final number of cases included was appropriate for the study (Yin, 2009). Next, eligible cases were contacted via telephone and e-mail to ask if they were willing to participate in the study and to schedule for the interview. During this stage, it was also double-checked if the company met the predetermined criteria mentioned above. All companies were informed about the purpose of the study and the people involved in the study via telephone or an introductory letter sent via e-mail. The introductory letter clearly stated the purpose of the study, the benefits of participating in the study, the extent of company involvement, and the people involved in the study.

Of the companies contacted, 32 firms agreed to participate. The key characteristics of these 32 firms are presented in Table 6. As illustrated in Table 6, there is a lot of diversity in the sample in terms of sector, firm age and number of employees. Some companies were within manufacturing industries, while others where within ICT. Some companies were established more recently, while others were more established. Some companies had few employees, while others had many. In terms of internationalization, the majority of the SMEs included in the sample had a high export ratio. In fact, almost 85 % of the SMEs included in the sample had an export ration of 50 % or higher. A more detailed description of the cases is presented in Appendix A.

Table 6: Overview of firm characteristics

	No. of firms	% of all firms
Sector:		
Food	5	16%
Garment/Textile	10	31%
ICT	9	28%
Food	8	25%
Firm age:		
10-20	10	31%
21-30	9	28%
31-40	3	9%
41-50	2	6%
More than 50	8	25%
Employees:		
Less than 20	8	25%
20-49	8	25%
50-100	10	31%
More than 100	6	19%
Export Ratio:		
1-10%	0	0%
11-50%	4	13%
51-90%	19	59%
More than 90%	8	25%

3.4 METHODS OF DATA COLLECTION

The following section describes how the data that forms the basis of this study was collected. Empirical data may be collected using a variety of data collection techniques, including: surveys, observation, documents and interviews (Bryman & Bell, 2015). For the purpose of this thesis, two data sources were used: (1) semi-structured interviews and (2) documents. In the following section I will elaborate on how each of the data collection techniques has been used, and how they have contributed to the conclusions.

3.4.1 SEMI-STRUCTURED INTERVIEWING

The data collected for this study have primarily been collected using semi-structured interviewing. While there are various techniques available for gathering data, including surveys, observation, and documents, the interview is the most important and common technique for gathering data in case studies (Myers, 2009). This is particularly true when studying SMEs, where interviewing is likely to be the only way to obtain information from key decision-makers (Bell et al., 2004; Carson, 1995). The reason for this is that a lack of published information (e.g., shareholder reports and commercial analyses.), poor recording of internal data and a marked reluctance of small business managers to complete questionnaires and disclose commercially sensitive information make other forms of data collection problematic (Carson et al., 1995). In addition, interviews provide a unique opportunity for researchers to gain access to key decision-makers and their mindset (Welch, Marschan-Piekkari, Penttinen, & Tahvanainen, 2002; Yeung, 1995).

The qualitative interview is '*a conversation that has a structure and a purpose*' (Kvale & Brinkmann, 2009, p. 3). An interview may therefore best be described as a dyadic form of communication between two parties. Unlike structured interviewing, where the researcher has a clearly specified research question that is to be investigated, qualitative interviews are more loosely structured and therefore allow the interviewees to discuss what they believe is important to the topic of the conversation (Alvesson, 2003). The interviewer introduces the interviewee to an issue by asking introductory questions and then follows up on the interviewee's answers by asking probing questions in order to seek new information about and new angles on the topic (Kvale & Brinkmann, 2009). Thus, in qualitative interviewing there is a much greater interest in exploring and understanding the world from the interviewees' points of view (Bryman & Bell, 2015).

One of the distinguishing marks of the semi-structured interview is that the actual interview is usually conducted on the basis of an interview guide or protocol (Bryman & Bell, 2015). Using an interview guide has a number of benefits. First, the interview guide ensures the interviews share a given focus. Without this focus it is easy to become overwhelmed by the volume of data (Dubois & Gadde, 2002). Second, when doing multiple case study research, the interview guide helps to ensure cross-case comparability, as the interviewees are asked many of the same questions (Bryman & Bell, 2015). Yet, semi-structured interviewing allows for great flexibility and freedom and interviewees are allowed to give rich detailed answers and take the interview in the direction they perceives as relevant.

The interview questions included in the interview guide were formulated based on the general research area and specific research questions (Bryman & Bell, 2015; Kvale & Brinkmann, 2009). This list of interview questions was then piloted and used in a couple of interviews. During this stage, the information gained from piloting the interview guide was used to identify issues, revise interview questions, and develop the final version of the interview guide used in this study. The final interview guide included a list of questions to be covered on topics within internationalisation. The interview protocol used for the purpose of this study was organised into five parts (see the Appendix B for an abbreviated generic version of the interview protocol). The first part captured information regarding company background, such as when the company was founded, the company's ownership, and present size in terms of employees and turnover. This information was supplemented with information from annual reports, company brochures and corporate websites. The second part specifically aimed at capturing information regarding the internationalisation patterns of the company, such as when the company first started to internationalise, how the internationalisation process developed over time and the percentage of revenue coming from overseas markets. The fourth part captured information about the company's decision-making processes in relation to their internationalisation. The final, and fifth, part was focused on capturing information about the role of the Internet in the internationalisation of the firm.

When using interviewing as the primary means of data collection, it is important to select key informants who have a thorough knowledge about the topic under consideration and have decision-making authority for the general area in which one is interested (Myers, 2009). The reason for this is to ensure that the interviewees can provide rich and detailed information about strategic issues, such as internationalisation. The informants used for the purpose of this study were corporate elites, that is, informants who occupied a senior or middle management position (Welch et al., 2002). As illustrated in Table 7, the informants mostly include Chief Executive Officers (CEOs), Owner-Managers, Vice Presidents, and Directors of Sales. All interviewees therefore had an in-depth knowledge about their firms' international operations, including how the firm's internationalisation had developed over time, and these individuals had had a direct impact upon the decisions related to the internationalisation strategy. Using corporate elites as key informants is also the most frequently used approach in previous studies on SME internationalisation (Coviello & Jones, 2004; McAuley, 2010).

As illustrated in Table 7, 32 interviews were conducted in the time period from December 2012 to October 2013 according to qualitative research guidelines, resulting in more than *47 hours* of interview. Each interview lasted between 1 and

2,5 hours, with an average duration of 1,5 hours. All interviews were recorded and eventually transcribed verbatim to help overcome natural constraints of memory, allow for a more thorough examination of the content of the interviews, and enable others to scrutinise and evaluate the analysis that is carried out (Bryman & Bell, 2015).

Table 7: Overview of interviews

Case	Date of interview	Informant	Duration of interview
AccesCo	03/09/13	CEO	0 h 56 min
AgriCo	21/05/13	Sales Director	1 h 10 min
AirCo	12/02/13	CEO	1 h 14 min
BlueCo	30/09/13	Owner-Manager	1 h 53 min
BuildCo	29/04/13	Sales Director	1 h 47 min
BuildCo	22/05/13	CEO	1 h 32 min
CleanCo	11/09/13	CEO	1 h 25 min
CoolCo	03/10/13	Vice President	0 h 55 min
DairyCo	08/04/13	Sales Director	1 h 22 min
DeliCo	04/04/13	Owner-Manager	1 h 08 min
DesignCo	09/01/13	CEO	1 h 15 min
FeedCo	11/04/13	CEO	1 h 27 min
FlowerCo	02/10/13	Owner-Manager	1 h 51 min
GreenCo	18/04/13	CEO	1 h 15 min
LogiCo	05/02/13	CEO	2 h 03 min
MeatCo	10/04/13	CEO	0 h 44 min
MicroCo	09/10/13	Vice President of Sales	1 h 32 min
MixCo	05/02/13	Owner-Manager	1 h 32 min
MobileCo	21/01/13	Vice President	1 h 50 min
PayCo	23/10/13	CEO	1 h 17 min
PrivateCo	03/05/13	CEO	0 h 45 min
SailCo	04/02/13	CEO	2 h 30 min
ShareCo	24/09/13	Vice President of Sales	1 h 30 min
ShipCo	29/04/13	Business Unit Director	1 h 26 min
SmokeCo	03/04/13	Owner-Manager	1 h 37 min
SourceCo	17/12/12	Director of Operations	1 h 11 min
TechCo	03/05/13	CEO	0 h 55 min
TexCo	10/09/12	Business Developer	2 h 27 min
WashCo	10/09/13	Sales Director	1 h 43 min
WindCo	10/09/13	CEO	1 h 42 min
FashionCo	16/01/13	CEO	1 h 24 min
WorkCo	25/11/14	CEO	1 h 48 min

3.4.2 DOCUMENTS

While the semi-structured interviews were used as the primary data in this thesis, another important source of data that has been taken advantage of in this study is documents. Documents refer to '*any written materials that people leave behind*' (Esterberg, 2002, p. 121). Documents are therefore a type of data that can be read, are not produced specifically for the research, are preserved so that they are available for analysis, and are relevant to the specific study (Bryman & Bell, 2015). Documents are best described as an unobtrusive method for collecting data, as the documents used were produced for other purposes than the purpose of this study (Myers, 2009). An unobtrusive method refers to '*any method of observation that directly removes the observer from the set of interactions or events being studied*' (Denzin, 1978, p. 256).

What can be included as a 'document' in social research covers a potentially broad spectrum of materials. Bryman and Bell (2015) distinguish between personal documents, public documents, organisational documents, mass media outputs, visual documents and virtual documents. According to Yin (2009), documents should be considered a useful source of data in all case studies. It has been argued that utilising documents of various kinds, in various modes and through various media can enrich qualitative research (Coffey, 2014). According to Hodder (2012, p. 172), documents are of importance for qualitative research because '*access can be easy and low cost, because the information provided may differ from and may not be available in spoken form, and because texts endure and thus give historical insight*'.

For the purpose of this study, organisational documents, such as financial reports, press releases and corporate websites, and mass media outputs, such as newspaper articles, were used as sources of data. Using these documents, in addition to interviews, made it possible to build a richer picture than what could be obtained by the interviews alone (Myers, 2009). Relevant documents from mass media outputs were identified using a database providing full text electronic articles from all Danish newspapers, specialist journals, broadcast media and online media. Financial information, including annual reports, was collected using a database containing key figures, credit assessments, and complete annual reports for the past five years.

In line with the recommendations put forth by Yin (2009, p. 103), these documents were used to '*corroborate and augment evidence from other sources*'. Hence, documents were used to supplement interview data rather than on their own. For instance, prior to interviews, different types of documents were used to prepare for the interviews by learning more about the company (Simons, 2009). In particular, the company websites, annual reports and mass media outputs were used to learn about the company, including their products, and history, in order to become familiar with the participant, company and the context in which they operate. Hence, documents were valuable in providing detailed information about the informant and the case company and were used to build up a description of the case firm and its history (Bryman & Bell, 2015). This background research also increased my awareness of issues or events that would be worth exploring during the interviews

(Simons, 2009). In addition, documents often provided partial insight into the internationalisation process, that is, how internationalisation has developed over time, including when the company first started internationalising, the foreign operation modes used, and the countries involved. In addition, it has been suggested that the corporate website may be useful for exploring the export orientation of firms (Blazquez & Domenech, 2014).

3.5 METHODS OF DATA ANALYSIS

Analysis is an exciting but also challenging stage in the qualitative research process that requires a combination of creativity, inspiration, searching and diligent detection (Ritchie & Lewis, 2003). Yet, methods of qualitative data analysis are typically not well codified (Huberman & Miles, 1983)A common issue raised against qualitative research is the lack of transparency, in informing the reader about how the findings were arrived at (Pratt, 2009). For that reason, a detailed description of the analytic process is presented in the following section in order to enable others to evaluate the veracity of the analysis and findings.

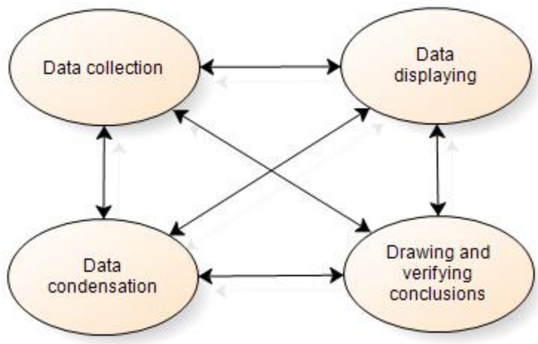
Qualitative data analysis involves answering the research questions at hand by identifying, examining, and interpreting patterns and themes in textual data. According to Patton (2002), qualitative analysis transforms data into findings. The data analysis process in qualitative research is often described as being messy and has, metaphorically speaking, been compared to the work of a detective (Holliday, 2001; Moring, 2001). There are many different ways to analyse and interpret qualitative data, each with its own advantages and disadvantages (Myers, 2009). While each of the different approaches focus on qualitative data, they differ slightly in terms of focus. According to Myers (2009), the choice of data analysis approach should be guided by the philosophical assumptions, research methods, and quality and quantity of data.

For the purpose of this thesis, thematic analysis was used, which involves the identification and coding of basic themes in the data (Guest, MacQueen, & Namey, 2012; Ritchie & Lewis, 2003). Thematic analysis is one of the most commonly used approaches to qualitative data analysis (Bryman & Bell, 2015). According to Ayres (2008, p. 868), thematic analysis is '*a descriptive strategy that facilitates the search for patterns of experience within a qualitative data set; the product of thematic analysis is a description of those patterns and the overarching design that unites them*'. The collected data was analysed in a sequence of iterative steps. Unlike in quantitative research, where data analysis is often a step-by-step process, the data was analysed in a cyclical and recursive process that involved progressing through a number of iterative processes, where you explore, code and reflect (Bazeley, 2013). Following Miles, Huberman and Saldana (2014), the analytic process involved three concurrent flows of activity, as illustrated in Figure 2:

1. Data condensation
2. Data displaying
3. Drawing and verifying conclusions

In order to arrive at an insightful understanding of the data and the phenomenon under scrutiny, the researcher must move back and forth between these different activities or actions.

Figure 2: Qualitative data analysis process (Miles et al., 2014)



During all phases of data analysis, NVivo 10 was used to help analyse the data. NVivo is a computer assisted qualitative software (CAQDAS) packaged designed for supporting qualitative analysis, including coding, developing themes, and arriving at evidence-based conclusions (Bazeley & Jackson, 2013). It has been argued that NVivo is particularly useful for supporting thematic analysis, given the central role of coding in this analytic approach (Gibbs, 2014). During the analytic process, NVivo was used to manage, query, and visualize data (Bazeley & Jackson, 2013). Using NVivo for facilitating the analysis of qualitative data had a number of advantages. First, it allowed me cope with my limited cognitive capacities, making it possible to handle larger volumes of data and pursue an increasing number of analytic questions (Silverman, 2013). For instance, NVivo made it easier and faster to process and categorise large amounts of qualitative data and to run advanced queries, in order to compare and contrast cases (Bazeley & Jackson, 2013). In turn, this provided me more time to focus on exploring the meaning of the data, identifying patterns and producing explanations. Second, using NVivo helped increase the rigour, by creating an audit trail and demonstrating the link between data and conclusions, making sure the conclusions were verifiable (R. R. Sinkovics, Penz, & Ghauri, 2009). In other words, using NVivo in the different steps of the analytic process helped with quality assurance in this study.

In the following section, I will discuss each of the components of the analysis in more depth, in order to make it explicit how the data was transformed into conclusions and thereby increase the transparency of the data analysis process. The purpose of this is to address one of the common criticisms of qualitative research, the lack of transparency and rigour in analysis (Pratt, 2009). While the three distinct steps are presented isolated from each other, it is important to emphasise that the data analysis process was iterative, which is why the process should be perceived as cyclical or recursive (Miles et al., 2014). Thus, during the data analysis process I moved back and forth between these three steps.

3.5.1 DATA CONDENSATION

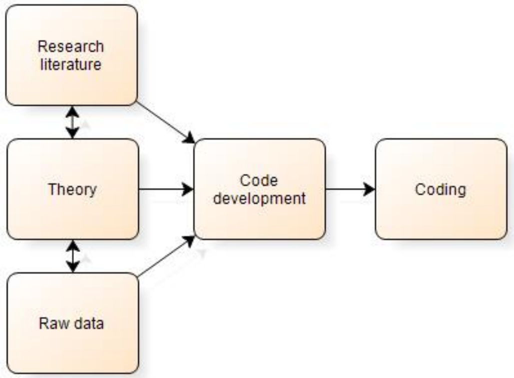
As a first step in the analytic process, the collected empirical data was condensed, which refers to *'the process of selecting, focusing, simplifying, abstracting, and/or transforming the data that appears in the full corpus (body) of written-up field notes, interview transcripts, documents, and other empirical materials'* (Miles et al., 2014). A major challenge faced in qualitative research when trying to analyse the collected data is how to condense the data, so that the 'essence' or meaning of participants' perceptions or experiences are distilled (Roulston, 2014). Qualitative research generates huge amounts of data, which is why 'data overload' is frequently a topic when starting to analyse the collected rich and detailed data (Huberman & Miles, 1983). This data overload is best described as an informational bottleneck, which severely limits the researchers' capacity to process and make sense of the data (Royce, 2002).

In this study, coding, which is a typical categorisation strategy in qualitative research, was used in order to condense and cope with the enormous amount of data, which included more than 46 hours of interview (Strauss & Corbin, 1998; Thornberg & Charmaz, 2014). This involved assigning '*a word or short phrase that symbolically assigns a summative, salient, essence-capturing, and/or evocative attribute for a portion of language-based or visual data*' (Saldana, 2013, p. 3).

Coding is typically regarded as an essential part of qualitative data analysis. Because of constraints in our cognitive capacities, it is often impossible to discover patterns in the data by reading a series of transcripts. Coding allows you to overcome these cognitive constraints and discover patterns in the data that was not otherwise visible (Auerbach & Silverstein, 2003). Thus, it can be argued that it is not possible to analyse and make sense of the data without coding (Farquhar, 2012). The reason why coding is so important in qualitative data analysis is that it allows you to both manage and keep track of data, while facilitating asking questions of the data and building ideas (Bazeley, 2013). Hence coding was utilised, as an essential part of the analytic process, as it helped reduce information overload, by encapsulating the essence of the data and stimulating thinking about what was going on in the data.

Before the actual coding, all transcripts were read multiple times, in order to prepare for the following steps in the data analysis. The goal of this was to become familiar with the data and acquire a holistic view of the data before engaging in more detailed coding (Braun & Clarke, 2006). While reading the transcripts, rich or significant participant quotes or passages related to the decision-makers perceptions of risk associated with internationalisation or how SMEs and decision-makers deal with their concerns about these risks were highlighted. This was done using NVivo for making annotations and linked memos. This allowed me to identify and capture passages of text which were worthy of future attention and to connect impulsive thoughts with the data (Saldana, 2013). In addition, the transcripts were also coded for basic descriptive information, including firm size (in terms of turnover and number of employees), products, export ratio, and top exports markets. This was an important step, taking into consideration that the study involved multiple cases. This type of attribute coding was also important as a means for providing important participant information and context, which is used later in the analysis and interpretation (Saldana, 2013). This descriptive information was captured in NVivo using classifications (Bazeley & Jackson, 2013).

Figure 3: Coding process (DeCuir-Gunby, Marshall, & McCulloch, 2011)



The actual coding of the data involved using a number of inductive and deductive coding methods, and data was coded in a circular process, as illustrated in **Error! Reference source not found.**. As a first step, in the actual coding process, the data was coded using a ‘broad-brush approach’ that involved chunking the text into broad topic areas (Bazeley & Jackson, 2013). For that purpose, structural coding was used, which involved applying a '*content-based or conceptual phrase representing a topic of inquiry to a segment of data that relates to a specific research question used to frame the interview*' (Saldana, 2013, p. 84). This structural coding followed the interview structure, where each of the questions was assigned a structural code. In other words, the interview guide was used to build an initial coding template, which was then applied to the raw data (Ritchie & Lewis, 2003). Hence, the data was structured into five parts: (1) background information, (2) international activities, (3) decision-making, and (4) Internet and internationalisation. A list and definition of the structural codes are provided below in Table 8.

Table 8: List and definition of structural codes

Code: parrent	Code: child	Definition
Firm Background	Foundation and Background	Information about how the company was founded and who founded the company
	Ownership	Information about the type of ownership
	Management	How is the company managed? And is it managed by owner-manager or non-owner manager?
	Board of directors	Information about whether the company has a board of directors, including who they are and what role they play in the company
	Company size	Information about company size in terms of employees and turnover
	Products or services	Information about the products or services offered by the company
	Strengths	Interviewees opinion about the company's core strengths compared to its direct competitors
	Overall performance	Information about the interviewees subjective evaluation of the overall performance of the company in comparison to direct competitors
International activities	Internationalization process	Information about the overall pattern of internationalization, including when the company started internationalizing, how it has developed over time, countries involved, and operational modes used
	Benefits of internationalization	Information about the overall benefits associated with internationalization
	Internationalization motives	Information about the reasons for internationalization
	International risk	Interviewees subjective opinion about the main risks faced in doing business in foreign markets
	Risk implications	Information about perceived implications of these risk on firm internationalization
	Risk Accommodation	Information about risk management and other coping mechanisms used by the firm to deal with their concerns about perceived risk
	Competition	Information about the perceived amount of competition faced in foreign markets
Decision-making	Decision mode	Information about the method and logic used by the interviewee to go about reaching a decision to internationalize, either initially or to expand the scope of their existing international business
	People involved in decision-making	Information about the people involved in decision to internationalize
	Challenges in decision-making	Information about major challenges regarding decision making and implementation and the actions taken to deal with these challenges
Internet and internationalization	Internet assimilation	Information about how the company take advantage of the Internet to conduct or support activities related to firm internationalization
	Reasons for using Internet	Information about the company's motives for using the Internet as means for internationalization
	Pros and Cons	Information about the perceived pros and cons of using the Internet when expanding into foreign markets
	Outcomes of using Internet	Information about the perceived consequences of using the Internet as a means for internationalization

After the data was organised into broad topic areas, following the interview structure, the topic areas relevant to this study were explored and coded in more detail. This process involved a combination of deductive coding (i.e., concept-driven) and inductive coding (i.e., data-driven). For example, in relation to Paper III (presented in Chapter 5), where the aim was to explore risk accommodation behaviours in internationalising SMEs, the literature review identified a number of potential risk management strategies, which were then later used deductively for coding the data. However, in order to explore the data for potential strategies and practices that were not identified in the literature review, the coding process was also explored inductively, using open coding. Thus, using a combination of both deductive and inductive coding provided the benefit of giving the study focus and making sure that the coding was linked to the specific research questions, while still allowing room for new insights to emerge (Bazeley, 2013).

One objective of the study was to prepare descriptive accounts of how decision-makers perceive and cope with risk in the internationalisation process and discover the range and diversity these two phenomena However, the analytic objective of the study was not only to describe how decision-makers perceive risk related to internationalisation and how SMEs and decision-makers deal with these risks, but to explain *why* decision-makers perceive more or less risk and *why* they choose specific methods for dealing with these risks. Against this background, the data was not only examined for process, but also for structure (Strauss & Corbin, 1998). This involved coding for causal and intervening conditions, which refers to a '*set of events or happening that create the situations, issues, and problems pertaining to a phenomenon and, to a certain extent, explain why and how persons or groups respond in certain ways*' (Strauss & Corbin, 1998, p. 130). The goals of this was to locate, extract and infer causal beliefs from the interview transcripts, which, for example, could help uncover what decision-makers believe about risk and its causes. (Saldana, 2013) This, in turn, facilitated the discovery of patterns of association within the data and explaining why these patterns occur (Ritchie & Lewis, 2003).

Next, after the first cycle of coding, the initial list of themes was organised into meaningful themes or clusters in order to produce higher order codes and an create meaningful and parsimonious themes (Miles et al., 2014). This was mainly done by reviewing the coded data and categorise it based on thematic similarity (Saldana, 2013). This, in turn, made it possible to reduce the focus of the study to a smaller number of themes. A number of techniques were used to identify themes within the data, including looking for repetition, metaphors and analogies, transitions, linguistic connectors as well as similarities and differences across units of data (Ryan & Bernard, 2003). This second cycle of coding condensed the large number of individual codes created in the first cycle coding and condensed these codes into a smaller number of pattern codes or themes (Braun & Clarke, 2006)

NVivo 10 was used during all phases of coding, which allowed me to address the issue of de-contextualisation (i.e., the possible problem of loosing the context of what is said), which is one of the most commonly mentioned criticisms of coding (Bryman & Bell, 2015). As argued by Gibson and Brown (Gibson & Brown, 2009, p. 189), '*[t]he contexts in which people speak are fundamental to the meaning which they are creating. By removing that context from the analysis, researchers remove the resources that would enable them to understand why the speakers said what they did or, perhaps more accurately, 'why they said it how they did''*. However, by using NVivo, a link between the coded material and the source of the coded material was always retained so that it was always possible to go back to the source in order to understand the context more accurately (Bazeley & Jackson, 2013).

3.5.2 DATA DISPLAY

In order to make the coded data amenable to further analysis and interpretation, data displays were used for organising purposes (Bazeley, 2013). Proper use of displays reduces the risk of jumping to hasty and immature conclusions and is a crucial step in order to arrive at robust conclusions (Huberman & Miles, 1983). Miles, Huberman and Saldana (2014) introduce a variety of different data displays, which can be broadly classified into two major 'families': (i) matrices, with defined rows and columns, and (ii) networks, which include a series of nodes with links between them. Choices related to the format of the displays should be driven by the specific task at hand, that is, the research question(s) (Miles et al., 2014). Network displays are particularly useful, when the aim of the study is to capture contingency-based relationships, whereas matrix displays are particularly useful, when the aim of the study is to capture similarity-based relations and compare cases (Maxwell & Chmiel, 2014).

Meta-matrices were used in this study for displaying and organising the condensed data. Meta-matrices are '*master charts assembling descriptive data from each of several cases in a standard format*' (Miles et al., 2014, p. 135). More specifically, meta-matrix displays summarise data in a matrix with each column representing different codes or themes, and each row representing different cases. Creating meta-matrices involved retrieving coded data and putting it into the cells of the matrix. Because it is rarely helpful to include the direct quotations from respondents, the process of putting content into the cells involved meaning condensation. Meaning condensation entails '*an abridgement of the meanings expressed by the interviewees into shorter formulations*' (Kvale & Brinkmann, 2009, p. 205). In other words, meaning condensation involved summarising and rephrasing long quotations into summaries that capture the essence of what was being said. Thus, meaning condensation facilitated the abridgement of data, while retaining the language and meaning of the interviewee. In addition to summaries or paraphrases of what was in the coded text, the cells also included short direct quotes and ratings or summarised judgements. Using meta-matrices had a number of advantages. First, it facilitated within-case analysis by enabling me to see how different themes relate to each other for a particular case, by looking across a row (Bazeley, 2013). Second, using meta-matrix displays also facilitated cross-case comparisons, by allowing me to look for patterns in the data, make comparisons and produce explanations in terms of how decision-makers in internationalising SMEs perceive the risks associated with internationalisation and the methods used for coping with these risks (Ritchie & Lewis, 2003). Hence, meta-matrices were used to facilitate both within-case and cross-case analysis.

In addition, causal network displays were used to display the major themes emerging from the data and the linkages between them. This involved creating both within-case and cross-case causal networks (Miles et al., 2014). Network displays are great for capturing and illustrating the complexity of causal relationships in the data (Bazeley, 2013).

3.5.3 DRAWING AND VERIFYING CONCLUSIONS

The third and final element of the analytic process involved drawing and verifying conclusions. This step was critical in order to ensure the robustness of the findings. Yin (2009, p. 160) argues that '*No matter what specific analytic strategy or techniques have been chosen, you must do everything to make sure that your analysis is of the highest quality*'. In this regard, it is important to emphasise the epistemological positioning of this study, which is critical to our ability to attain knowledge that mirrors or corresponds to reality and rejects the positivistic epistemology that it is possible to obtain objective knowledge and arrive at the absolute truth. Thus, this part of the analytic process was not about identifying truth, but more to develop justifiable and reasoned guesses about explanations. This process was then best described as an inference to best explanation, where abductive reasoning was used to draw conclusions that provide the 'best' explanation of available evidence, recognising that this knowledge may be different from the actual reality (Bazeley, 2013).

Table 9: Strategies used to draw conclusions

Strategy	Description
1. Noting patterns and themes	Looking for commonalities across the data to discover patterns or themes
2. Clustering	Clustering together experiences or phenomena that have common characteristics and place similar patterns into larger categories
3. Counting	The number of times a theme or construct is expressed
4. Making comparisons	Comparing cases with theory and looking for within-group similarities and intergroup differences among selected categories or dimensions (e.g., firm size, age, industry and internationalisation patterns)
5. Noting relations between variables	Looking for interrelationship between the identified codes and themes

Drawing conclusions involved making sense of the data, by drawing meaning from the different data displays. More specifically, this process involved both deciding on the meaning of the themes and patterns and how this helps in answering the research question(s). Following the recommendations of Miles et al. (2014), a wide variety of tactics were used to extract meaning from the different data displays. As illustrated in Table 9, the strategies used for drawing conclusions includes: (1) *noting patterns and themes, (2) clustering, (3) counting, and (4) making comparisons*. *Noting patterns and themes* involved looking for patterns in terms of similarities and differences in the decision-makers' subjective judgement and appraisal of the risks associated with internationalisation as well as how they cope with these risks (Miles et al., 2014). *Clustering* involved grouping and then conceptualising objects that have similar patterns or characteristics, in order to understand a phenomenon better (Miles et al., 2014, p. 279). Aggregating or clustering cases aided in clarifying cross-case patterns and making sense of the comparative analyses (Bazeley, 2013). *Counting* was an attempt to quantify the qualitative data by counting frequencies (Miles et al., 2014). While some warn against using counting in qualitative research (e.g. Pratt, 2009), other emphasise that quantification should not been seen as an enemy in qualitative research (e.g. Silverman, 2013). According to Miles et al. (2014), using counting in order to make sense of the data has a number of benefits: (1) it allows you to get a quick overview of a large dataset, (2) it allows you to verify a hunch or hypothesis, and (3) it protects against bias, by ensuring that you are analytically honest. Finally, *making comparisons* involved both comparing cases with theory and looking for within-group similarities and intergroup differences among selected categories or dimensions, (e.g., firm size, age, industry and internationalisation patterns.). Comparing cases with theory increased my sensitivity to the data (Bazeley, 2013) and allowed me to identify discrepancies between reality and theory (R. R. Sinkovics & Alfoldi, 2012). This involved comparing empirically based patterns with theoretically predicted patterns, asking whether data supported existing theory, or how existing theory could be refined in order to fit the empirically based patterns (Yin, 2009). Cross-case comparison involved looking for '*within-group similarities coupled with intergroup differences*' (Eisenhardt, 1989, p. 540). The aim of this was to reveal whether some groups, either defined demographically (e.g., firm size, age, export intensity and international experience.) or contextually, varied in their expressions about the risks associated with increasing involvement in foreign markets and the mechanisms used to cope with these perceived risks. The primary tools for cross-case comparisons were matrix or tabular displays (Bazeley, 2013). The cross-case comparison was facilitated by NVivo, where matrix queries were utilised to look for interrelationships between different codes (Bazeley & Jackson, 2013). It has been argued that cross-case comparisons result in a deeper understanding of the data (Bazeley, 2013) and reduce the risk of reaching premature or false conclusions (Eisenhardt, 1989). In other words, a wide variety of tactics was used to interpret the data displays in order to draw meaning from them.

In order to reduce the risk of arriving at injudicious and immature conclusions, a number of precautions were taken, in order to test and confirm the findings. Human beings are generally biased in their interpretations of data because of their cognitive limitations in terms of information processing, which is why it is necessary to take precautions in order to counteract these cognitive limitations (Eisenhardt, 1989). Thus, it is important that initial conclusions are subjected to scepticism and verification. Miles et al. (2014, p. 276) accentuates the importance of verification by arguing that, '*Without verification, you're just another researcher with a hunch*'. In qualitative research, verification refers to '*the mechanisms used during the process of research to incrementally contribute to ensuring reliability and validity and, thus, the rigor of a study*' (Morse, Barrett, Mayan, Olson, & Spiers, 2008, p. 17). Hence, verification is best described as a process involving checking and rechecking the data to confirm the initial conclusions are correct.

Table 10: Strategies used to verify findings

Strategy	Description
1. Checking out rival explanations	Checking if possible rival explanations can also explain the findings
2. Looking for negative evidence	Looking specifically for data that oppose the initial conclusion or are inconsistent with this conclusion
3. Checking for representativeness	Checking initial conclusions against the complete dataset to see how widely these conclusions were supported
4. Making if-then tests	Making formal statements about expected relationships and testing to see how many cases confirmed this relationship

As illustrated in Table 10, a number of tactics were utilised during the analytic process, in order to verify initial conclusions, including: (1) *checking for representativeness*, (2) *looking for negative evidence,* (3) *checking out rival explanations* and (4) *making if-then tests*. An effort was made to ensure that all the evidence was attended to and major rival explanations were addressed (Yin, 2009). For instance, initial conclusions were always checked against the complete dataset to see how widely these conclusions were supported. This prevented selective interpretations, also referred to as 'cherry-picking' (Barbour, 2014). Miles et al. (2014, p. 309) warns that: '*Foreclosing too early on alternative explanations is a harbinger of bias. You lock into a particular way of construing the case and selectively scan the environment for supporting evidence. Discounting evidence is ignored, underregistred, or handled as exceptional – thus further increasing your confidence in your erroneous thesis*'. An important source of rival explanations is negative cases (Bazeley, 2013), which is why effort was made to identify and look for negative evidence. According to Bazeley (2013, p. 313) '*Divergent views, negative cases, or outliers – however you choose to label them – provide a rich source for further analytic thinking; learn from them and grow your understanding so that your emerging theory can incorporate them*'. Thus, in order to ensure reliability and validity, a number of precautions were taken to verify and confirm initial conclusions.

Finally, 'If-then' testing was used to explore the generalisability of the findings. 'If-then' testing involved making formal statements about expected relationships and testing to see how many cases confirmed this relationship (Miles et al., 2014). For example, a formal statement could be made, suggesting that if the decision-makers have many resources available when operating in foreign markets, then they will have a tendency to perceive less risk. This statement could then be tested against all cases. ‘If-then’ testing was in this study facilitated by creating conditional matrices in NVivo using the matrix coding query function, which allowed patterns and interrelationships between codes to emerge (Bazeley & Jackson, 2013). Hence, in summary, a number of precautions have been taken to avoid reaching unwarranted conclusions.

3.6 QUALITY OF THE FINDINGS

While no research is perfect, findings must be as trustworthy as possible, and all research must be evaluated in relation to the procedures used to generate the findings (Myers, 2009). Quality in qualitative research is a controversial topic, which has been discussed intensely in the literature (Barbour, 2014; Bryman & Bell, 2015). While quantitative researchers seems to agree on a number of criteria for establishing and assessing the quality of quantitative research, qualitative researchers have been discussing what criteria are relevant to use. This has resulted in a variety of criteria, with different conceptions about what should be considered good qualitative research (Seale, 1999). As argued by Bazeley (2013, p. 402), *'Because we have different viewpoints on what constitutes truth and whether truth can be known, there are no absolute, agreed standards for the quality and significance of research'*. In other words, different paradigms have different conceptions about what is considered good and valid research, which is why it is important to select criteria in accordance with the study's chosen philosophical assumptions, including the epistemological position.

For the purpose of this thesis, Healy and Perry’s (2000) criteria for evaluating the quality of qualitative research were used, as these are developed specifically for judging research positioned within critical realism. Adopting a critical realist approach had important consequences for the evaluation of the study (Bøllingtoft, 2007). Healy and Perry (2000) identify six criteria to use for evaluating the quality of case studies, positioned within critical realism: (1) *ontological appropriateness*, (2) *contingent validity*, (3) *multiple perceptions of participants and of peer researchers*, (4) *methodological trustworthiness*, (5) *analytic generalisation*, and (6) *construct validity*. As illustrated in Table 11, a number of methods and techniques have been used to increase the quality and ensure rigorous and meaningful findings. These will be elaborated on below.

Table 11: Basic beliefs of critical realism and quality criteria

Level	Basic beliefs	Criteria	Some possible techniques
Ontology	Reality is ’real’ – but only imperfectly apprehensible	Ontological appropriateness	• Selection of research problem, for example, it is a ’how’ and ’why’ problem
		Contingent validity	• In-depth questions, • Emphasis on ’why issues’, • Description of the context of the cases
Epistemology	Modified objectivist: findings are probably true	Multiple perceptions of participants and of peer researchers	• Multiple interviews, • Supporting evidence • Triangulation • Published reports for peer review
Methodology	Triangulation and interpretation of research issues by both qualitative and quantitative approaches	Methodological trustworthiness	• Case study database, • Use in the report of relevant quotations, • Descriptions of procedures such as case selection and interview procedures
		Analytic generalization	• Identify research issues before data collection • To formulate an interview protocol that will provide data for confirming or disconfirming theory
		Construct validity	• Use of prior theory, • Case study database, • Triangulation

Source: Bøllingtoft (2007) adapted from Healy and Perry (2002).

Ontological appropriateness is mainly concerned with the link between ontology, research purpose and the specific methods used in the study (Bøllingtoft, 2007). The purpose of this thesis was to investigate how international entrepreneurs perceive and manage barriers to internationalisation in order to identify and capture opportunities across national borders. Realist ontology has been identified as appropriate, when the purpose of the study is to examine questions such as how individuals or organisations perceive and manage risk (Lupton, 1999). In addition, qualitative case study methods have been singled out as a particularly appropriate research approach for studies positioned within critical realism (Easton, 2010; Maxwell, 2012; Morais, 2011; Wynn Jr. & Williams, 2012). Thus, the fit between the ontological assumptions, the research questions and the methods used in this study was good.

Contingent validity more or less parallels ’internal validity’ (Yin, 2009) and ’internal validity/credibility/authenticity’ (Miles et al., 2014). According to Bøllingtoft (2007, p. 414), contingent validity is about '*(generative) mechanisms and the context that make them contingent*'. Contingent validity is concerned with the credibility of the findings. One way credibility was established was by ensuring that research was conducted according to qualitative research guidelines (Bryman &

Bell, 2015). Second, as explained in paragraph 3.5.3, a number of precautions were taken to verify the findings and reduce the risk of arriving at injudicious and immature conclusions. For instance, effort was made to ensure that all the evidence, including negative cases, was attended and major rival explanations were addressed before drawing any conclusions (Bazeley, 2013; Yin, 2009). Hence, a number of actions were taken during the research process to ensure credibility of the findings.

Epistemological appropriateness is related to the confirmability of the findings and is '*concerned with ensuring that, while recognizing that complete objectivity is impossible in business research, the researcher can be shown to have acted in good faith; in other words, it should be apparent that he or she has not overtly allowed personal values or theoretical inclinations manifestly to sway the conduct of the research and findings deriving from it*' (Bryman & Bell, 2015, p. 403). A number of steps were taken in order to ensure the confirmability of the findings. First, the methodology guiding the empirical investigation has been explicitly described in detail, including the philosophical assumptions driving the study (Miles et al., 2014). Thus, enough detail is provided to allow others to judge and evaluate the study. In addition, the four papers have been subject to peer-review from and have been presented at different conferences. Second, the specific steps followed in terms of data collection and data analysis have been described in detail. Third, the conclusions are explicitly linked with condensed/displayed data, either in the form of data displays or in the form of quotes in combination with thematic counts (Pratt, 2009). Fourth, a number of precautions have been taken in order to avoid jumping to conclusions, as discussed in paragraph 3.5.3, including checking for rival explanation, looking for negative evidence, and making if-then tests.

Methodological appropriateness refers to methodological trustworthiness, analytic generalisation, and construct validity (Healy & Perry, 2000). Methodological trustworthiness is central, and refers to '*the extent to which the research can be audited by a third person, this person very often being another researcher*' (Bøllingtoft, 2007, p. 415). In order to increase the methodological trustworthiness of the study, an effort has been made to increase transparency, by documenting and describing the procedures followed in order to arrive at the findings (Pratt, 2009; Yin, 2009). This entailed keeping record of different phases in the research process, including the sampling procedures, data collection, transcription and data analysis (Bryman & Bell, 2015). Hence, the procedures should be articulated clearly enough, so that others can assess their appropriateness and potentially replicate them. In addition, the findings from the study have been subject to peer-review on several occasions, including internal research seminars, Ph.D. courses and international conferences (Miles et al., 2014).

Analytic generalisation is concerned with *'the analysis of data and the establishment of the domain to which the study's findings can be generalized, thus corresponding to the well-known criterion of external validity*' (Bøllingtoft, 2007, p. 415). Thus, analytic generalisation is concerned with the question of whether the study's findings are generalisable or transferrable to other contexts (Yin, 2009). It has been argued that a strategic sampling of cases increases the generalisability of the study (Flyvbjerg, 2006). In the attempt to ensure that the findings of this study are transferrable, an attempt was made to ensure that the sampling was diverse (Miles et al., 2014). For instance, the selected cases varied on a number of dimensions, including industry, size, knowledge-intensity, degree of internationalisation, and internationalisation patterns.

Construct validity refers to *'how well information about the constructs in the theory being built are 'measured' in the research'* (Healy & Perry, 2000, p. 125). Yin (2009) affirms that a common criticism of case studies relates to the inadequate conceptualisation, that is, the development of a sufficiently operational set of measures. Thus, an important tactic for increasing construct validity relates to utilising prior theory to adequately define and conceptualise key constructs (Healy & Perry, 2000). As discussed earlier, this study adopts an abductive research process, which is why the first task in the research project was to conduct a thorough literature review in order to build the theoretical and conceptual foundations for the research process (R. R. Sinkovics & Alfoldi, 2012). Hence, several precautions have been taken in order to ensure methodological appropriateness, why there is no reason to believe that methodological appropriateness should be an issue.

4 EXPLORING SME DECISION-MAKERS PERCEPTION OF RISKS INHERENT IN INTERNATIONALISATION[1]

Jonas Eduardsen and Svetla Marinova

Abstract: Managers' perception of risk in internationalisation has been found to influence the internationalisation behaviour of small and medium-sized firms (SMEs), acting as a barrier hindering SMEs to initiate, develop or sustain exporting or direct investment operations in foreign markets. Understanding decision-makers risk perceptions is therefore a prerequisite for understanding SME internationalization. In this study, we seek to provide insights into the ways in which SME decision-makers perceive risks in foreign markets. A qualitative interview-based approach was adopted by collecting data from thirty-two Danish SMEs operating in four different industries. Findings suggest that while risk awareness exists, internationalisation is not perceived as risky behaviour by the decision-makers. Findings also highlight the importance of decision-makers' background, including cognitive and psychological characteristics, such as self-efficacy and locus of control, and their experiences in explaining risk perceptions.

Keywords: risk perception; internationalisation; small and medium-sized firms; self-efficacy; locus of control; experience

4.1 INTRODUCTION

Small and medium-sized enterprises (SMEs) are increasingly facing a dilemma: on the one hand, internationalisation provides SMEs with an opportunity for growth, while on the other hand, internationalisation exposes SMEs to heightened risks, which may negatively influence the performance and well-being of the firm (Bekaert et al., 2014; Luo, 2009; Prashantham & Floyd, 2012). This is particularly

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true for SMEs that face higher risk because of their size (Lu & Beamish, 2001). Due to resource scarcity, SMEs have a limited ability to withstand potentially negative outcomes, which is why the level of risk is usually higher in small firms (Mitchell, 1995). Thus, instead of providing advantages, internationalisation may have very negative effects on survival and growth for SMEs (Fernhaber & Li, 2013; Mudambi & Zahra, 2007; Puig et al., 2014; Sapienza, Autio, George, & Zahra, 2006). Consequently, recognising and pursuing opportunities across national borders has been categorised as risk-seeking behaviour (McDougall & Oviatt, 2000).

In an effort to explain SME internationalisation better, the concept of risk and decision-makers' perception of risk have attracted the attention of scholars in academic inquiry. This is partly explained by the differences in decision-making processes between large firms and SMEs. Whereas in larger firms, decision-making is typically rational and strategic goal-driven, decision-making in SMEs is often intuitive, with decision-making power often conferred to a single individual (Brouthers, Andriessen, & Nicolaes, 1998; Child & Hsieh, 2014; Jansen, Curseu, Vermeulen, Geurts, & Gibcus, 2011). Thus, in SMEs, strategic decisions, including those on internationalisation, are more likely to be the outcome of a single individual decision-maker and their perceptions (Child & Hsieh, 2014; Lamb et al., 2011).

Risk perceptions, that is, decision-makers' subjective '*assessment of risk inherent in a situation*' (Sitkin & Pablo, 1992, p. 12), have been used to explain the likelihood and willingness of SMEs to internationalise (Cavusgil & Naor, 1987), the timing of internationalisation (Acedo & Jones, 2007; Oviatt & McDougall, 2005), the operation modes used when entering and operating in foreign markets (Ahmed et al., 2002; Demirbag et al., 2010; Schwens et al., 2011) and the number of countries in which the firm is actively involved (Kiss et al., 2013). These studies all support the argument that managerial risk perceptions influence SMEs' involvement in foreign markets and emphasise the centrality of risk and managerial risk perception in explaining and understanding the internationalisation behaviour of SMEs. Understanding how decision-makers perceive and judge the risks of internationalisation, including the factors that drive and shape decision-makers' perceptions of risk, is therefore a pivotal task in research on SME internationalisation (Acedo & Florin, 2006). Understanding how and why decision-makers perceive the risk of internationalisation the way they do can lead to a better understanding of internationalisation decision-making and internationalisation behaviour, including why some SMEs, and not others, recognise and capture opportunities across national borders.

Despite the centrality of risk in the internationalisation literature, there has been surprisingly little research into *how* decision-makers perceive risk in the internationalisation process (Acedo & Jones, 2007; Liesch et al., 2011). In order to address this gap in the literature and enhance the understanding of risk in the study of SME internationalisation, the purpose of this paper is to empirically examine how SME decision-makers view, experience and judge risk in the internationalisation process, including the different factors influencing and shaping decision-makers' risk perception. This study makes an important contribution to existing literature on SME internationalisation by building on the cognitive perspective on the internationalisation of SMEs. First, this study focuses on the micro-foundations, as they relate to decisions associated with firm internationalisation. Second, this study enriches existing literature on the internationalisation of SMEs by identifying a number of factors that appear to increase or decrease international entrepreneurs' assessment of risk.

The remainder of the paper is structured as follows: First, we begin by defining risk and establishing the significance of risk in SME internationalisation, including factors influencing decision-makers' perception of risk. Second, we describe the methodology of our study. Finally, we present and discuss the findings that lead to our conclusions and their implications.

4.2 THEORETICAL BACKGROUND

The following section presents the theoretical background of the study. To start with, we discuss various approaches to defining and conceptualising risk. This is followed by a summary of existing theoretical approaches in research on risk perception. Finally, the key findings of internationalisation research on decision-makers' perception of the risk associated with internationalisation are critically discussed.

4.2.1 RISK AND RISK PERCEPTION

Risk is often mentioned as being central to theorising about and explaining the internationalisation of firms, including SMEs (Acedo & Florin, 2006; Figueira-de-Lemos et al., 2011; Liesch et al., 2011). For instance, previous studies show how decision-makers' risk perceptions, that is, their subjective assessments of the level and magnitude of risks associated with international activities, are an important antecedent of internationalisation propensity (Cavusgil & Naor, 1987; Simpson & Kujawa, 1974), speed of internationalisation (Acedo & Jones, 2007), and the degree of internationalisation (Acedo & Florin, 2006; Kiss et al., 2013). Thus, differences in the scope, speed, and extent of internationalisation are likely to be the result of individual differences in how risk is perceived by the decision-maker (Liesch et al., 2011).

Risk is a difficult concept to define as it has multiple meanings depending on the context in which it is being applied (Lumpkin & Dess, 1996). In addition, the word risk has changed its meaning and use over the centuries (Lupton, 1999). Recently, Janney and Dess (2006) identified three different conceptions of risk: (1) *risk as variance*, (2) *risk as downside loss*, and (3) *risk as opportunity costs*. Risk is only a factor in managerial decision-making because decision-makers cannot gain sufficient knowledge to predict the actual outcomes of their decisions (Renn, 1998). Thus, risk is associated with the possibility that an unexpected outcome may occur as a result of human actions. Whether risk refers to *all* unexpected outcomes, including positive ones, or only negative outcomes has been a point of discussion. While the classic conception of risk refers to all unexpected outcomes, managers seem to perceive risk in ways that conflict with this perspective on risk (March & Shapira, 1987). Some authors argue that managers perceive risk not in terms of variance, but rather as downside loss, that is, the risk of the actual return being below the expected return (March & Shapira, 1987). This suggests that risk is about both *likelihood* and *magnitude* (Mullins & Forlani, 2005). Thus, Janney and Dess (2006, p. 390) argue that the most appropriate definition of risk, from a managerial perspective, is *'the likelihood and magnitude of downside loss, or hazards, as opposed to an overall variance of returns'.*

In the literature on internationalisation and international entrepreneurship, risk and uncertainty are often treated as synonyms, which may in turn constrain our understanding of internationalisation (Liesch et al., 2011). Others argue that risk and uncertainty are two sides of the same coin, meaning that they are two conceptually different concepts, yet they are closely related. For instance, Aven and Renn (Aven & Renn, 2009) define risk as an event where the outcome is uncertain, making uncertainty an antecedent of risk. Knight (1921) clearly distinguishes between risk and uncertainty. According to Knight (1921) risk refers to situations where decision makers are knowledgeable about potential outcomes and the probabilities of these outcomes occurring. By contrast, uncertainty refers to situations where decision-makers lack insight into potential outcomes and their probabilities. Hence, risk and uncertainty are conceptually different in that risk implies that the probabilities of future outcomes are knowable, whereas uncertainty implies they are unknowable (Alvarez & Barney, 2005; McKelvie et al., 2011). Knight (1921) distinguishes between three different kinds of probability situations: (1) ‘a priori probability’ determined by mathematical computation for a known set of possible states, (2) ‘statistical probability’ based on classification of possible states and empirical data indicating their frequencies, and (3) ‘estimates’ where there is no basis for classifying states and, thus, no way to evaluate empirically their relative frequencies. While Knight (1921) and his distinction between risk and uncertainty are heavily cited and used, others argue that this distinction is not appropriate in strategic management research. For instance, Miller (2007, p. 67) argues that:

> *'Using ‘uncertainty’ to refer to unpredictable contingencies affecting performance and ‘risk’ to indicate unpredictability or possible downside variability of performance more accurately describes the meanings expressed in entrepreneurship and strategic management research than do Knight’s (1921) classic definitions'.*

In the context of internationalisation, risk arguably refers to '*the dangers firms faced in terms of limitations, restrictions, or even losses when engaging in international business*' (Ahmed et al., 2002). There have been a few attempts in the literature to develop an integrative framework for understanding and managing risk in firms operating across borders. For instance, Miller (1992) developed a framework for categorising the uncertainties faced by firms operating in foreign markets, classifying the risk factors as *environmental uncertainties*, *industry risks* and *firm-specific risks* (Miller, 1992). General environmental factors include political uncertainties, government policy uncertainties, macroeconomic uncertainties such as interest rates and foreign exchange variability, social and natural uncertainties. The industry-related uncertainties comprise elements that are specific to the industry and include input-market uncertainties, product-market uncertainties and competitive uncertainties resulting from the actions of competitors and product and process innovations. The firm-specific component includes operating uncertainties like production, labour and input supply issues, uncertainties about potential liabilities resulting from products and emissions of pollutants, uncertainties relating to research and development, credit uncertainties and behavioural uncertainties. However, it is not clear which of these would or may be associated with risk.

4.2.2 COGNITION AND RISK PERCEPTION

Several areas of the literature and academic disciplines provide insight into the factors influencing individuals' risk perception. The inter-subjective nature of risk perceptions calls for inquiry into risk-related interpretive schemes (Bromiley et al., 2015; Miller, 2009). Perception is a conceptually broad term referring to '*… a process in which the perceiver constructs reality by performing cognitive operations on cues derived from the environment*' (Kiesler & Sproull, 1982, p. 552). This suggests that perception is a cognitive activity that refers to how managers interpret and make sense of the information received by one or more of their senses. Thus, in order to make sense of the environment, managers rely on their perceptions to understand the vast amount of information or stimuli that they are exposed to.

The goal of research on risk perception is to provide a clearer understanding of the ways in which individuals form judgements about the risks they face (Wilkinson, 2001). Within social science, risk perception has often been studied by adopting a cognitive perspective (Taylor-Gooby & Zinn, 2006b). The cognitive/learning perspective assumes that individuals are boundedly rational and is largely influenced by cognitive psychology, which focuses on the processes by which individuals think and make decisions. According to this perspective, perceptions of risk are conditioned and influenced by individual cognitive biases. To cope with constraints in cognitive capacity, individuals employ simplifying strategies and cognitive heuristics, that is, '*cognitive shortcuts that emerge when information, time, and processing capacity are limited*' (Bingham & Eisenhardt, 2011, p. 1439). In general, heuristics are quite useful and may potentially result in more accurate judgements with less effort (Mousavi & Gigerenzer, 2014). However, heuristics may also result in cognitive biases, which cause decision makers to either overestimate or underestimate risk (Barnes, 1984; Kiss et al., 2013). Tversky and Kahneman (1974) show how individuals rely on a number of judgemental heuristics when faced with uncertainty. These include availability bias (the tendency to overestimate the significance of rare but striking factors), immediacy of effect (results that directly follow causes tend to receive greater attention in thinking about risk than more remote ones), and loss aversion (the damage of a loss tends to be weighted more highly than the benefit of an exactly equivalent gain) (Taylor-Gooby & Zinn, 2006b). Thus, according to the cognitive/learning perspective, differences in perceptions of risk, either between individuals or between groups of individuals, is considered a matter of cognition (Sjöberg, 2000).

Given the centrality of managerial risk perception in explaining heterogeneity in firm internationalisation, several studies have made an attempt to identify antecedents explaining decision-maker's perception of risk associated with internationalisation. In general, these studies successfully identify a number of psychological and situational characteristics which together influence and determine managerial risk perceptions. In the context of SMEs, where the decision-making is often centralised around a single decision-maker, the managerial mindset, including psychological traits and the cultural-cognitive embeddedness, is likely to influence how decision-makers perceive the risks of internationalisation (Oviatt et al., 2004). This is consistent with the Upper Echelon Perspective within strategic management, according to which the decision-makers' interpretation of the environment is largely determined by the decision-makers' interwoven set of psychological and observable characteristics (Cannella, Finkelstein, & Hambrick, 2010; Hambrick & Mason, 1984; Hambrick, 2007). Previous studies have examined the extent to which the decision-makers' managerial mindset and cognitive characteristics influence their subjective assessment of risk. For instance, it has been suggested that the cognitive style of the individual decision-maker influences his or her perceptions and ultimately the decision-making process (Wiersma & Bantel, 1992). Cognitive style refers to how decision-makers think, that is, how they gather and processes information (Cannella et al., 2010). Sadler-Smith (2004) distinguishes between rationality and intuition as two contrasting cognitive styles that reflect distinctive ways of processing information. Acedo & Florin (2007) find that decision-makers with a rational cognitive style will perceive higher levels of risk in pursuing international opportunities. Thus, decision-makers will perceive more risk when they gather and process information in a rational and logical way. In addition, the international orientation of the decision-makers, that is, the decision-makers' mental attitude regarding foreign expansion, is suggested as one of the significant determinants of perceived risk (Acedo & Florin, 2006; Eroglu, 1992). A highly international orientation appears to foster lower perceptions of risk in internationalisation. Consequently, decision-makers with an international orientation are more likely to proactively identify, create and capture international opportunities (Acedo & Jones, 2007; G. A. Knight & Kim, 2008). Others mention the decision-makers' tolerance for ambiguity, that is, the extent to which an individual is able to make decisions in uncertain and risky situations, as an important determinant of perceived risk. Decision-makers are more likely to associate international activities with less risk when exhibiting a higher tolerance for ambiguity (Acedo & Jones, 2007). Together, these findings suggest that the decision-makers' cognitive traits influence their subjective assessment of risk associated with international activities. Kiss, Williams and Houghton (2013) have also made an attempt to identify the factors influencing the risk perception of key decision-makers. More specifically, these authors suggest that the risk perceptions of key decision-makers are influenced by their motives for internationalisation. Proactive decision-makers perceive internationalisation opportunities as less risky, while reactive decision-makers perceive internationalisation opportunities as more risky (Kiss et al., 2013).

In addition to the individual characteristics, previous studies have successfully identified a number of organisational characteristics that influence decision-makers' assessments of risk in internationalisation. For instance, Acedo and Florin (2006) suggest that the firm profile, that is, its age, size and scope of national operations, act as a reference point and influence decision-makers' perceived risk from international expansion. Larger firms are less vulnerable to potential negative outcomes when internationalising because they have more resources and therefore a higher capacity to absorb failure (Claver et al., 2008; Eroglu, 1992). Thus, decision-makers in older, larger and more established firms are likely to perceive lower levels of risk associated with internationalisation relative to decision-makers in new ventures. Furthermore, it has been found that the risk is perceived to be higher in the later stages of internationalisation, when more resources are committed to increase the level of internationalisation (Claver et al., 2008; Liesch et al., 2011). Others have argued that ownership may play a central role in explaining risk perceptions, arguing that the perception of risk is higher in family businesses relative to SMEs with different ownership structures (Claver et al., 2008). Similarly, family involvement in management has been identified as a factor leading toward caution in the internationalisation process (Bell et al., 2004; Kontinen & Ojala, 2012). Hence, the internationalisation of family businesses is typically described as cautious and slow, in order to avoid unnecessary risk (George et al., 2005).

4.3 METHODOLOGY

A qualitative approach was adopted in order to examine and understand the way decision-makers perceive the risks associated with internationalisation and the meanings they attach to these risks. A qualitative approach was deemed appropriate for this study given its strengths in understand something from the subjects' own perspectives and to elicit their perceptions (T. H. Das, 1983; Silverman, 2013). Adopting a qualitative approach could therefore help advance our understanding of SME decision-makers perceptions of the risks associated with doing business in foreign markets (Bromiley et al., 2015) and the different types of factors that are somehow related to decision-makers' experience of risk and the cognitive processes related to risk perception (Hawkes & Rowe, 2008).

As the study included a limited number of participants, these were selected for analytical reasons rather than statistical reasons (Eisenhardt, 1989; Flyvbjerg, 2006). In other words, participants were selected because they were considered particularly suitable for examining risk perceptions associated with internationalisation (Eisenhardt & Graebner, 2007). Participants were selected by using 'criterion sampling' (Patton, 2002), where cases had to meet a set of predetermined criteria to be considered eligible for this study. First, the firm must be categorised as an SME. For the purpose of this study, we defined SMEs according to the official definition of SMEs by the European Commission. Hence, we classified SMEs as firms that employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro. Second, given that the purpose of this study was to examine how SME decision-makers perceive risk in internationalisation, all case companies had to be actively involved in international business. We identified eligible cases by using a database containing information on all VAT registered companies in Denmark. Using this database, a list of firms that fulfilled these criteria was developed. Afterwards, these companies were randomly phoned and asked if they wanted to participate in the study and be interviewed. In total, 32 cases from three different industries were selected. The cases are described in more detail in Appendix A.

4.3.1 DATA COLLECTION

Data were collected using semi-structured interviewing, which is a particularly useful method when the purpose is to elicit individuals' perception of risk (Hawkes & Rowe, 2008). Furthermore, interviewing is likely the only way to obtain information from SME decision-makers (Bell et al., 2004; Carson, 1995) in order to understand how they think, what drives their actions, etc., with respect to the internationalisation of the firm. The reason for this is that a lack of published information (e.g., shareholder reports and commercial analyses.), poor recording of internal data and a marked reluctance of small business managers to complete questionnaires and disclose commercially sensitive information make other forms of data collection problematic (Carson et al., 1995).

When using interviewing, it is important to select key informants who have a thorough knowledge of the topic under consideration and have decision-making authority for the general area in which one is interested. The informants used in this study were corporate informants who occupied senior positions (Welch et al., 2002). For example, the informants mostly included Owner-Managers, Chief Executive Officers, and VP of Sales. All interviewees therefore had an in-depth knowledge about their firms' international operations, including how the internationalisation had developed over time, and they had direct impact upon the decisions related to the internationalisation strategy.

Prior to data collection, an interview guide containing a list of introductory questions to be asked during the interview was developed based on the general research area and the specific research question. First, the participants were asked broad question about the company to provide background and context to the interview, including when and how the company was founded, the current ownership, present size in terms of employees and turn over, and perceived competitive advantage and performance related to competitors. Next, the participants were asked question related to the internationalisation process, including when the company first started making any sales abroad, how its internationalisation has developed over time, the countries involved, entry modes used, and percentage of revenue coming from foreign markets. Progressively, the participants were asked more questions more related to the purpose of this study, including their awareness, attitudes and behaviours related to risk. Throughout the interviews, participants were asked follow-up and probing questions in order to extent the participants answers and get more specific knowledge addressing the questions 'how' and 'why' (Kvale & Brinkmann, 2009).

In total, 32 interviews were conducted face-to-face and each one lasted between 1,5 and 2 hours. The majority of the interviews were conducted in English; however, the participants were given the option to have the interview in Danish, if they were more comfortable with that. To facilitate analysis and allow for a more thorough examination of the content of the interviews, all interviews were recorded and transcribed verbatim and the interviews in Danish were translated into English (McLellan, MacQueen, & Neidig, 2003). For reasons of anonymity, all company names have been replaced with pseudonyms.

4.3.2 DATA ANALYSIS

For the purpose of analysing the data, thematic analysis was adopted, which involves the identification and coding of basic themes in the data (Braun & Clarke, 2006; Guest et al., 2012; Ritchie & Lewis, 2003). Thematic analysis is a strategy that involves searching for patterns of experience within a qualitative data set in order to produce a description of those patterns and the relationships between them (Ayres, 2008)

Data analysis proceeded in a sequence of iterative steps. As a first step in the analytic process, we made ourselves familiar with the data by reading and re-reading the interviews in order to get a holistic overview of the data (Ritchie & Lewis, 2003). During this process, we looked specifically to identify statements related to the decision-makers' subjective assessments of risks inherent in doing business in foreign markets (Guest et al., 2012). These were coded using structural codes, in order to identify the data most related to our research question (Saldana, 2013). This resulted in the identification of large segments of text related to the participants' subjective assessment of the risks faced when doing business in foreign markets. Next, after coding the data using structural coding, the data was analysed more in-depth, using open coding a combination of inductive and deductive coding techniques (DeCuir-Gunby et al., 2011). Both approaches have their pros and cons, which is why combining the two makes it possible to capitalise upon their strengths, while offsetting their weaknesses. Thus, it has been suggested that using this combination increases the rigour of an analysis (Fereday & Muir-Cochrane, 2006). Based on the theoretical background and literature review, a list of sensitising concept-driven codes was developed in advance (Huberman & Miles, 1983; Kvale & Brinkmann, 2009). In the theoretical background, building upon insights from psychology and sociology, it was suggested that the decision-makers' perception of risk associated with internationalisation is influenced by a number of individual, organisational, risk, and cultural factors. In addition to the theory-driven coding, data driven-coding was used to ensure that we remained open to what was in the data, rather than simply applying concepts imported from the literature. Thus, combining the two approaches allowed us to be theoretically informed, without being theoretically blinded (Roulston, 2013).

In order to provide insight into the factors that influence SME decision-makers subjective assessment of the risks faced when doing business in foreign markets the data was examined and coded for relational statements. More specifically, this involved looking for causal and intervening conditions by looking for words that cue relations such as 'since', 'due to', 'when' and 'because' (Strauss & Corbin, 1998). By examining and coding the data for causal and intervening conditions and relationships it was possible to make a 'conceptual leap' and enrich our understanding of how SME decision-makers form judgements about the risks faced when doing business in foreign markets (Klag & Langley, 2013)

During all phases of data analysis, NVivo 10 was taken advantage of. NVivo is a computer assisted qualitative software (CAQDAS) package designed for supporting qualitative analysis, including coding, developing themes and arriving at evidence-based conclusions (Bazeley & Jackson, 2013). NVivo enabled me to deal with the complexities of qualitative data analysis, provided an audit trail and ensured that the conclusions are verifiable (Sinkovics, Penz, & Ghauri, 2009). Thus, NVivo helped to ensure rigour in the analysis process and increase the trustworthiness of the findings.

4.4 FINDINGS

The purpose of this study was to explore: (1) how decision-makers in internationalising SMEs experience and perceive the risks adhering to doing business in foreign markets, (2) the factors influencing their subjective assessment of risk, and (3) the impact of risk on firm internationalisation. In the following section, the findings of the study in relation to these three research questions are presented and elaborated on.

4.4.1 PERCEIVED RISKINESS OF DOING BUSINESS IN FOREIGN MARKETS

Understanding how decision-makers in SMEs engaged in international business perceive the risks faced when doing business in foreign markets was a key concern in this study. While it is widely acknowledged that internationalisation exposes firms to a wide variety of risks, some of which are unique to firms actively involved in international business, few studies have focused on exploring how those involved in internationalisation experience and perceive these risks.

During the interviews, decision-makers were asked to discuss the main types of risk faced when doing business in foreign markets, to elicit their perceptions of how risky internationalisation is believed to be. As illustrated in Table 12, variability in the subjective assessment of risk was observed. When looking across all participants in the study, significant diversity and range in decision-makers' subjective assessment of risk was noted. As the illustrative quotes suggests, decision-makers' subjective judgement of risk ranged from not seeing any risks associated with international expansion to seeing internationalisation as a very risky endeavour. In other words, while some of the participating decision-makers, in line with scholars and other experts, regarded internationalisation as a risky strategy to pursue, others seemed oblivious to the risk inherent in pursuing international opportunities and refused to acknowledge or accept the element of risk associated with internationalisation. Thus, our findings show that those who are involved in these activities do not always perceive international business as risky.

Table 12: Overview of variability in risk perception

Perceived level of risk	Supporting quotes
High	"Definitely! Internationalization is a very risky. Out customers are struggling and many are forced to go out of business. So it is extremely risky." (Owner-manager, LeviCo)
	"If you are not capable of delivering reliable products that live up to the expectations of customers in foreign markets it can have fatal consequences for the firm and threaten its survivability." (CEO, AirCo)
Moderate	"Well of course there is some risk. For instance, you have exchange rate risk. But in general I only see advantages. Internationalization enables you to spread your risks across multiple markets" (Owner-manager, PrivateCo)
Low	"I do not really see any risk associated with internationalization. I would rather see it as a challenge." (Sales Director, AgriCo)
	"I would never see internationalization as a risk. I would see it as a challenge. But we don't have any risks." (Director of Operations, SourceCo)

During the interviews, the decision-makers were asked about the main risks their companies faced in doing business in foreign markets. Our findings show that this group of decision-makers perceives internationalisation to be associated with a number of endogenous (i.e., internal) and exogenous (i.e., external) risks. Thus, even if this group of international entrepreneurs was aware that doing business in foreign markets was accompanied by elements of risk, there was not consensus about what these risks were. The exogenous risks include unexpected outcomes as a result of a lack of understanding about cultural differences, currency fluctuations, government actions or opportunistic behaviour by foreign partners or customers. Endogenous risks, on the other hand, include unexpected outcomes as a result of resource-related issues, product-related issues or poorly executed strategic decisions. The majority of the international entrepreneurs demonstrated awareness of exogenous risks, whereas only half of the international entrepreneurs referred to endogenous risks during the interviews. However, our findings show that the smaller firms (i.e., firms with fewer than 50 employees) were paying more attention to endogenous risks compared to larger firms. Nearly twice as many small firms referred to resource-related issues when being asked about the main risks faced when engaging in international business, compared to medium-sized firms. In contrast, medium-sized firms were more attentive to exogenous risks, especially risks related to cultural differences and political issues. Thus, firm size appears to have an impact on the types of perceived risk.

Table 13: Overview of perceived risks when doing business in foreign markets

Risk factors	**Description**	**No. of mentions**
Exogenous:		25
Cultural risk	Unexpected outcomes as a result of a lack of understanding about cultural differences (Hain, 2011)	9
Financial risk	Unexpected outcomes as a result of currency fluctuations (Jacque, 1981)	7
Political actions	Unexpected outcomes as a result of government actions (Baekert et al., 2014)	8
Relational risk	Unexpected outcomes as a result of other opportunistic behaviour (Das & Teng, 2001)	10
Endogenous:		16
Commercial risk	Unexpected outcomes as a result of poorly developed or executed business strategies, tactics, or procedures (Cavusgil et al., 2014)	7
Product-related risk	Unexpected outcomes as a result of product-related issues, including issues related to product quality.	3
Resource-related risk	Risk that the adopted strategy will require resources that the firm does not have, cannot acquire, or cannot spare (Ghoshal, 1987)	10

While the majority of the international entrepreneurs were conscious and aware of potential risks, a noteworthy number of interviewees were seemingly oblivious to the risk inherent in pursuing international opportunities for SMEs. One informant stated: *'I would never look at it [internationalisation] as a risk'* (VP Sales, SourceCo), whilst another stated, 'I don't really see a lot of risks' (CEO, DesignCo). Thus, contrary to the conventional wisdom, some international entrepreneurs do not experience internationalisation as an action accompanied by or involving risk. For instance, the CCO of SourceCo, whose primary activities include selling software and consultancy services, is a good example of this. As illustrated by the quotation below, he refuses to see internationalisation as a risk, and rather categorises it as a challenge, that is, a test of one's abilities. He stated *'I would never look at it [internationalisation] as a risk. I would rather see it as a challenge'*. This suggests that risk is perceived as something that is uncontrollable and independent of managerial skills and competencies.

4.4.2 FACTORS INFLUENCING RISK PERCEPTIONS

A second aim of this study was to identify the factors influencing SME decision-makers perceptions of the risks inherent in internationalisation. The study identified a number of factors that could help explain and understand the SME decision-maker's perceptions of the risks faced when doing business in foreign markets.

4.4.2.1 Perceptions of risk factors

Risk factors refer to factors that increase individuals' perception of risk, in this case, their perception of the risk associated with doing business in foreign markets. Our findings suggest that distance is one of the main drivers of risk perception among international entrepreneurs. By distance, we refer to '*the perceived difference between the characteristics of a firm's domestic environment and those of a foreign country*' (Child, Rodrigues, & Frynas, 2009, p. 200). Ghemawat (2001), based on the work of Johanson and Vahlne (1977), argues that distance may originate from differences along cultural, administrative, geographic and economic dimensions. During the interviews, international entrepreneurs explained how different dimensions of distance affect their perception of the risk associated with internationalisation. First, geographic distance was found to influence international entrepreneurs' perception of risk. As explained by the CEO in DesignCo:

> *When you have outsourced your production it becomes more difficult, simply because of the distance', whereas another informant stated, 'If you start receiving complaints from customers far away, it can seriously threaten the survival of the company*

Thus geographic distance appears to introduce friction and complexity to cross-border activities, making it more difficult for SMEs to conduct business in these markets.

Distance also has cultural, administrative or political, and economic dimensions that can have a significant impact on the international entrepreneurs' assessment of risk. The factor most often referred to by the international entrepreneurs interviewed was related to cultural distance, that is, the perceived differences in norms and values between the firm's home country and foreign countries. Increased cultural distance was often associated with an increase in perceived risk. Many of the international entrepreneurs interviewed mentioned how a lack of understanding regarding cultural norms and values often increased misunderstandings and in general made it more difficult for companies to conform to these norms and values. Differences in language were also mentioned as a source of risk by a number of informants for many of the same reasons as mentioned above. The CEO of DenimCo, whose primary activities include designing, producing and selling fashion wear, explains how the Russian market is considered riskier compared to some of their other markets. More specifically, he states, *'It would be very difficult for us to do things differently in Russia because you don't speak the language and they don't speak English or German or whatever'.* Thus, according to our findings, the perceptions of differences in terms of language, beliefs, attitudes and traditions were related to SME decision-makers' assessment of risk in internationalisation.

Another factor that was often mentioned by the international entrepreneurs interviewed was related to differences in country characteristics, including the political system, business environment and practices. In addition, the international entrepreneurs often referred to political and institutional conditions when assessing the risk inherent in international expansion. For instance, a number of informants argued that the risk inherent in doing business in foreign markets increased when the political and institutional conditions were poorly developed or even corrupt:

> *'Corruption seems to be an immanent risk and we have actually decided not to pursue any business in Russia because of corruption. When we started in Russia we quickly faced some people that wanted money'* (MobileCo).

Thus, findings suggest that psychic distance is one of the main drivers of risk perception in internationalisation.

Experience was also found to have an impact on decision-makers' risk perceptions. Experience may act as a filter or heuristic used to evaluate and prioritise the multitude of risks faced. Within international business research, experience, that is, the experience that individuals and firms accrue from operating internationally, is also a key concept in explaining firm internationalisation (Clarke, Tamaschke, & Liesch, 2013). In the literature on internationalisation, experience is seen as leading to experiential learning, which in turn, decreases perceived uncertainty and increases commitment to, and knowledge of, international markets (Forsgren, 2002; Johanson & Vahlne, 1977; Michailova & Wilson, 2008). Thus it can be expected that international experience decreases perceived risk (Figueira-de-Lemos et al., 2011).

In line with this argument, our findings show that individuals who have not experienced negative or unexpected outcomes when doing business in foreign markets are more likely to believe that capturing international opportunities and doing business in foreign markets is unlikely to have detrimental consequences for the firm and, therefore, their risk perception decreases. However, while experience in some situations led to perceptions of lowered risk, the opposite was also true. In some cases, previous experience intensified the international entrepreneur's perception of risk. For instance, international entrepreneurs who had previously experienced unexpected outcomes or losses when engaging in international business were more likely to accept that internationalisation involves risk. To give a couple of examples, the decision maker in MobilCo stated: '*In Russia we decided not to start anything. We did a bit of investigation and we ran into some people, who wanted money. Corruption seemed to be an immanent risk*', while another one stated, '*You quickly realise that there are huge differences. What I mean is that I have experienced this in my previous job. Huge differences in the way that people react in different business situations*' (GreenCo).

By contrast, the international entrepreneurs' risk perception seemed to decrease if the SME or international entrepreneur has been spared from suffering losses or unexpected outcomes when engaging in international business: '*Historically speaking, the company has had relatively few losses on debtors and the risk of a significant loss on all receivables is considered to be limited*' (MobileCo). Thus, direct experience is a strong factor in risk perception.

However, international entrepreneurs were also learning about risks through indirect experience. For instance, knowing someone who has had an unpleasant experience from engaging in international business makes it easier for individuals to imagine and realise the presence of risk in international expansion. For example, the Owner-Manager of TechniCo explained how his knowledge of others who have suffered adverse outcomes from expanding into certain foreign markets has intensified his awareness of these risks: '*There are so many who have gone over the edge which is why we're very reluctant to go there*'. Hence, through experience, international entrepreneurs learn about the risk implications of doing business in foreign markets. This means that previous experience, either direct or indirect, may distort perceptions of risk, by either intensifying or diminishing perceived risk, depending on the type of experience. While direct experience may increase international entrepreneurs' awareness and acceptance of risk, not having experienced negative or unexpected outcomes from previous international experience may lull the entrepreneur into a false sense of security.

4.4.2.2 Perceptions of risk-relievers

In addition, SME decision-makers' core self-evaluations also appear to have an impact on their perceptions of risk and act as risk-relievers. Core self-evaluation is a psychological construct that defines how individuals evaluate themselves and their relationship with the environment (Hiller & Hambrick, 2005). According to our findings, two aspects of core self-evaluation – internal locus of control and self-efficacy – were associated with lower perceptions of risk. SME decision-makers with an internal locus of control have a stronger sense that they can control their environment and assume that risk can be reduced by using their skills. As the Owner-Manager of a company producing accessories articulates,

> *'If you have done your homework diligently, selling products in foreign markets doesn't translate into higher risk', while another CEO argued 'I would never see internationalisation as a risk. I would see it as a challenge'.*

By contrast, SME decision-makers with an external locus of control, meaning that they perceive the outcome of their decisions to be outside their control, or perceive themselves as ill-equipped to achieve the expected outcomes, had a tendency to experience negative emotions, such as anxiety and fear, and perceived a higher degree of risk associated with doing business in foreign markets.

Whereas locus of control refers to a person's belief that he or she can influence the environment, self-efficacy is a belief in one's own ability to perform a given task (Wood & Bandura, 1989). Our findings indicate that perceptions of self-efficacy play an important role in forming SME decision-makers' perceptions of the risk inherent in international business activities, by affecting their sense of power over decision outcomes. In other words, the perception of self-efficacy also led the SME decision-makers to believe that if they do their part of the job they will achieve the expected outcomes of their decisions. For example, the CEO of AirCo commented,

> *'I would say that we have been lucky and skilled, which is why we have been able to identify and correct errors when expanding into foreign markets. But that is primarily because we have taken certain decisions and precautions'.*

Because these SME decision-makers assumed that the outcomes of their decisions were determined by their own abilities and they had confidence in themselves and their abilities, they perceived lower levels of risk in internationalisation. Thus, those

SME decision-makers who perceived the outcomes of their decisions related to internationalisation to be determined by their own abilities and who had confidence in themselves and their own abilities perceived lower levels of risk in internationalisation.

4.4.2.3 Impact of perceived risk on firm internationalisation

The final major theme identified in the study was related to the link between risk perceptions and actions in relation to firm internationalisation. In line with existing research, our findings suggest that perceived risk influences strategic decisions, including those on internationalisation.

Our findings from the interviews suggest that, to a certain extent, the international entrepreneurs consider risk to be a constraining factor in the internationalisation process. The international entrepreneurs interviewed were generally characterised by a low propensity to take risks. Thus, unless risk was considered sufficiently low, these international entrepreneurs would refrain from capturing or exploiting international opportunities. For instance, the CEO of CleanCo stated,

> '*We are very conservative. We don't throw ourselves into something that could threaten our existence. So we don't take any kinds of risk, when expanding our business internationally ... this can of course constrain our growth ... this is of course very unfortunate, when we can see that the market is already there*'.

Similarly, the CEO of MariCo argued, '*Overall we don't take any risk. That's something time has taught us*'. In addition to constraining growth, perceptions of risk can also lead to de-internationalisation, that is, shift to a strategic configuration that has a lower international presence (Turner, 2012). If the international entrepreneur becomes aware of potential risks or experiences unexpected outcomes in a foreign market where their firm is already active, he or she may decide to withdraw from that market. Thus, our findings suggests that international entrepreneurs' perceptions of risk may hinder or inhibit firm internationalisation or even cause the firm to de-internationalise, by withdrawing from markets in which the company is already active. Accordingly, perceived risk constitutes a major perceptual barrier to SMEs' internationalisation.

4.5 DISCUSSION

Numerous authors have identified risk, or managers' assessments of risk, as a key concept in explaining the internationalisation of SMEs. In this study, we explored how decision-makers, in a range of Danish SMEs actively involved in international business activities, perceived the risks associated with internationalisation. Analysis revealed three themes related to managerial risk perceptions: (a) perceptions of riskiness when doing business in foreign markets, (b) sources of perceived risk and risk-relievers, and (c) impact of perceived risk on firm internationalisation. In the following section, we discuss the main findings of the study in terms of their importance and meaning. Furthermore, we compare and contrast our findings with extant literature to identify any discrepancies or unexpected findings.

The first theme identified was related to perceptions of riskiness in doing business in foreign markets. While internationalisation creates opportunities for SMEs, it also comes with considerable risks, particularly for SMEs (Fernhaber & McDougall-Covin, 2014; Lu & Beamish, 2001). Interestingly, however, findings from the interviews suggest that international entrepreneurs do not always consider internationalisation to be accompanied by risk, as suggested by experts and scholars. While the majority of informants did demonstrate knowledge of potential risks accompanying internationalisation, a noteworthy proportion of the international entrepreneurs interviewed seemed oblivious to potential risks when doing business in foreign markets. This is in line with Liesch et al. (2011), who speculate that international entrepreneurs' ignorance of risk protects them from the harsh realities of international business. In addition, risk was considered a perceptual barrier that obstructs or impedes internationalisation. Thus, results of our study seem to provide an alternative explanation for what makes entrepreneurs identify and act upon international opportunities. The dominant perspective portrays international entrepreneurs as risk-seeking individuals that have a preference for risk. By contrast, our findings suggest that the capture of opportunities across national borders may be the outcome of lower levels of perceived risk, rather than a higher propensity or willingness to take risks. This is in line with emerging research in entrepreneurship, which challenges the basic idea that entrepreneurs have a higher risk propensity, even concluding that entrepreneurs, to a certain extent, are risk avoiders (Miller, 2007; Miner & Raju, 2004). Similarly, Janney and Dess (2006, p. 386) warn against using objective entrepreneurial action as a proxy for risk propensity because *'an action may appear risky to an established firm; however, in an entrepreneurial context it might actually prove less so. An entrepreneur who accepts such risks will appear to be accepting greater levels of risk relative to their more established* *counterparts, even though the entrepreneur does not perceive this greater risk*'. Apparent risk-seeking behaviour, as in internationalisation, may then be illusory when considered at the level of the individual decision-maker perceptions (Liesch et al., 2011). Hence, in accordance with Sommer (2010), we believe that future studies could benefit by shifting focus from 'risk propensity' to 'risk perception'.

The second theme identified was related to sources of perceived risk and risk-relievers. The perceptions of riskiness when doing business in foreign markets appear to be influenced by a number of factors, some of which increase perceptions of risk, while others reduce perceptions of risk. Thus, our study contributes to an area about which little is currently known, i.e., the antecedents of risk perception (Claver et al., 2008; Keh, Foo, & Lim, 2002; Sitkin & Weingart, 1995). In line with existing research on entrepreneurs' assessments of the risk inherent in internationalisation, our findings suggest that the notions of risk associated with international activities are influenced by psychological characteristics of the individual decision-maker (e.g. Acedo & Jones, 2007; Kiss et al., 2013). First, distance appears to be a primary driver of risk perception. In general, greater distance, as perceived by the international entrepreneurs, appears to be associated with greater perceived risk. This seems to be a plausible explanation in the light of previous studies. First, behavioural theorists conclude that distance creates uncertainty (Makino & Tsang, 2011), while risk is defined as an event where the outcome is uncertain (Aven & Renn, 2009). Second, cultural distance has been proposed as one of the greatest sources of risk and uncertainty in the international business context, owing to its tacit nature (Anderson & Gatignon, 1986; Erramilli & D'Souza, 1995). Third, previous research suggests that distance increases the challenge of achieving and sustaining successful cross-border activities, by introducing friction (Shenkar, Luo, & Yeheskel, 2008) and complexity (Vermeulen & Barkema, 2002) to cross-border activities.

In addition to distance, risk perceptions appear to be influenced by the psychological traits of the entrepreneur. Results indicate that *self-confidence*, *internal locus of control*, and *high self-efficacy* are all risk-relievers. Locus of control (i.e., whether control is related to the person or external to the person) has successfully been related to variations in managerial perceptions of organisational risks (Smallman & Fischbacher-Smith, 2003). Individuals having an internal locus of control have a stronger sense of control in relation to their surroundings, which is why they have a tendency to perceive relatively low personal and general levels of risk compared to individuals with an external locus of control (Kallmen, 2000). Others have found that individuals tend to underestimate risks that are perceived to be under their control (Nordgren, Van der Pligt, & Van Harreveld, 2007). Similarly, self-efficacy has also been related to risk perception in prior research (Kallmen, 2000). Self-efficacy is considered an important concept in understanding variations in risk perception, given that it concerns individual's sense of control and is considered a reflection of uncertainty (Smallman & Fischbacher-Smith, 2003). Previous studies have shown that without a strong belief in one's own abilities, many situations may appear scary and risky (Bandura, 1997). By contrast, individuals with a strong sense of self-efficacy have more confidence in their own abilities to control and reduce perceived risks (Sheeran, Harris, & Epton, 2014). In other words, individuals who believe risks can be controlled and believe in their own abilities to manage these risks are likely to have lower perceptions of risk. Accordingly, it seems plausible to propose that differences in perceived risks accompanying internationalisation are, to some extent, due to differences in locus of control and self-efficacy.

Finally, our findings underscore the importance of international experience in explaining international entrepreneurs' assessments of risk in internationalisation. Our findings show that international experience affects how international entrepreneurs perceive risks, by acting as a filter or heuristic used to evaluate and prioritise the multitude of risks faced. International experience is a key concept in explaining firm internationalisation, where it refers to the experiences that firms accrue from operating internationally (Clarke, Tamaschke, & Liesch, 2013). This is in line with previous studies, where it has been argued that firms may learn about the implications of environmental contingencies through experience (Miller, 2009). Individual decision-makers learn to attend certain environmental factors, while ignoring or neglecting others (Ocasio, 1997). Perceived levels of risk increase if risk has been experienced or can be readily imagined (Kahneman, Slovic, & Tversky, 1982). This 'availability heuristic' means that previous experience may distort perceptions of risk, by either intensifying or diminishing perceived risk, depending on the type of experience. Hence, our findings support the arguments of Liesch, Welch, and Buckley (2011, p. 858) who argue, *'History matters in the formation of perceptions about uncertainty and in assessments of risk, soaking into habits and ways of viewing the world, providing the frame of reference for how new situations are assessed and actions adopted'*.

The third theme identified was related to the impact of perceived risk on firm internationalisation. In line with existing literature, risk was considered a constraining factor hindering the firm's ability to capture opportunities in foreign markets. Thus, perceived risk constitutes a major perceptual barrier to SMEs' internationalisation. Results show that the evaluation of international opportunities is, to a certain extent, influenced by the international entrepreneur's perceptions of risk; that is, SME decision-makers consider international opportunities less attractive when the perceived level of risk is high and vice versa. These findings are consistent with a number of previous studies. For instance, Acedo and Florin (2006) found that SMEs were more committed to internationalisation and increased their involvement in foreign markets when entrepreneurs perceived lower levels of risk associated with foreign activities. Similarly, Kiss, Williams and Houghton (2013) found that the internationalisation patterns of SMEs are strongly driven by entrepreneurs' perceptions of risk. More specifically, they found that the international scope of SMEs increases when entrepreneurs perceive lower levels of risk. In other words, in order to achieve successful internationalisation and capture opportunities across national borders, risk must be deemed sufficiently low. Thus, in order to understand what promotes or constrains internationalisation in SMEs, it is important to understand how SME decision-makers evaluate international opportunities and the role of risk perceptions in that process.

4.6 CONCLUSION

Solving the theoretical puzzle of why some SMEs and not others identify and capture international opportunities and why some SMEs internationalise more aggressively than others has long intrigued international business researchers. Our research contributes to this body of literature and builds on the cognitive perspective on the internationalisation of SMEs by focusing explicitly on the micro-foundations of decision making as they relate to firm internationalisation. By demonstrating a link between managerial cognition and decisions related to internationalisation, our findings emphasise the central role played by the entrepreneur's risk perceptions, and add to the understanding of the role of cognitive traits in SME internationalisation. How SMEs decide to internationalise or to increase involvement in foreign markets has, so far, received surprisingly little attention in the literature (Child & Hsieh, 2014; Schweizer, 2012). Thus, our study contributes to the growing literature on the micro-foundations of internationalisation strategy (Morris, Hammond, & Snell, 2014; Prashantham & Floyd, 2012; Williams & Grégoire, 2014). Furthermore, our study enriches the existing literature on the internationalisation of SMEs by identifying a number of risk increasing and risk reducing factors that appear to be related to SME decision-makers' risk perceptions. Previous research emphasises that managers' perceptions of risk, rather than objective risk assessments, drive strategic decisions, including those on internationalisation (Demirbag et al., 2010; Forlani, Parthasarathy, & Keaveney, 2008; Kiss et al., 2013). For instance, risk perceptions have been identified as a key concept in explaining propensity to internationalise (Cavusgil & Naor, 1987), speed of internationalisation (Acedo & Jones, 2007; Oviatt & McDougall, 2005), choice of foreign operation mode (Ahmed et al., 2002; Demirbag et al., 2010; Schwens et al., 2011), and the number of countries in which SMEs are actively involved (Kiss et al., 2013). Thus, understanding the sources and drivers of risk perception among managers can help explain decision-making in relation to firm internationalisation, including why some, and not others, identify and decide to capture opportunities across national borders.

While this study addresses an important void in the existing literature and provides insight into SME internationalisation in terms of the sources and implications of risk perception for SME internationalisation, it has several limitations. These limitations themselves represent promising avenues for future research. Because our study deals only with a limited number of cases, which have been selected for theoretical rather than statistical reasons, our empirical results have limited statistical generalisability (Tsang, 2014; Yin, 2009). In order to generalise our findings to a wider population, future research should focus on replicating our findings with a larger sample of randomly selected SMEs. In addition, our findings suggest that risk is a perceptual barrier, constraining SMEs' ability to exploit international opportunities. SMEs appear to be unable to capture opportunities across national borders and increase involvement in foreign markets unless risk is considered sufficiently low. Hence, future research should focus on examining how SMEs and international entrepreneurs manage and cope with their concerns about perceived risk, however substantial, in order to identify and exploit international opportunities. Finally, given the nature of the sample, it was impossible to examine the role of culture in international entrepreneurs' perceptions of risk. It has been argued that individuals' assessment of risk is and remains context bound and that individuals' perception of risk can only be understood against the background of their embeddedness in a sociocultural background (Douglas & Wildavsky, 1983; Taylor-Gooby & Zinn, 2006a; Wildavsky & Dake, 1990). Similarly Gephart, Van Maanen and Oberlechner (R. P. Gephart, Van Maanen, & Oberlechner, 2009) argue, 'Certain cultures notice, address, and respond to particular phenomena as risks and fail to attend to other potential risks based on cultural logics and beliefs'. Hence, individuals' perceptions of risk are likely to vary across cultures, hence future research may seek to replicate this study in other cultural contexts, in order to examine how cultural differences might add to our understanding of the factors influencing entrepreneurs' perceptions of the risk accompanying internationalisation. In addition, understanding how and why decision-makers perceive some risks, and not others, will be important for advancing our understanding of international entrepreneurs' risk perceptions and SME internationalisation. The attention-based view of the firm may prove to be a fruitful theoretical perspective for investigating this research question.

5 COPING WITH RISK IN THE INTERNATIONALISATION PROCESS OF SMES[2]

Jonas Eduardsen and Svetla Marinova

Abstract: Although risk has received considerable attention in the internationalisation literature, many aspects of risk remain under-researched. The aim of the current study was to explore to what extent and how the risks faced when doing business in foreign markets is being handled in a range of small and medium-sized enterprises. This was explored via semi-structured interviews with a sample of decision-makers in SMEs actively involved in international business activities. In total, 32 decision-makers in a range of Danish SMEs were interviewed. Our findings show that SMEs follow different strategies of coping with risk and uncertainty in the internationalisation process, depending on key decision-makers' subjective assessment of the risks associated with international activities and the controllability of these risks.

Keywords: Internationalization; SMEs; Risk accommodation; Coping mechanisms

5.1 INTRODUCTION

Risk is a prominent feature in the literature on firm internationalisation (Fernhaber & McDougall-Covin, 2014; Figueira-de-Lemos et al., 2011; Liesch et al., 2011), where it refers to '*the dangers firms faced in terms of limitations, restrictions, or even losses when engaging in international business'* (Ahmed et al., 2002, p. 805). It is well established in extent literature that firms operating across national borders are exposed to a wide array of risks, as they venture into unknown territories where

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firms typically lack knowledge (Hashai, 2011). For instance, when engaging in international business, firms face a number of political risks, financial risks and transactional risks that may restrict international involvement or even result in financial losses (Luo, 2009). This is particularly true for small and medium-sized enterprises (SMEs) that, in addition to liabilities of foreignness, also face liabilities of smallness, which increase the downside consequences of international expansion (Child & Hsieh, 2014; Lu & Beamish, 2001). However, despite the fact that internationalisation exposes SMEs to a number of risks, an increasing number of SMEs are nevertheless observed to pursue internationalisation (Hessels & Parker, 2013; Ruzzier et al., 2006). The reason for that may partly be because these SMEs are able to recognise, access and implement appropriate coping responses in order to mitigate the risk associated with internationalisation (Liesch et al., 2011). A key consideration in internationalisation research is therefore to understand how SMEs cope with risk in the internationalisation process (Fernhaber & McDougall-Covin, 2014; Hagigi & Sivakumar, 2009; Hilmersson et al., 2015).

While the concept of risk is no stranger to internationalisation theory, the question of how and to what extent SMEs can mitigate risk in their international expansion is still not fully understood (Brustbauer, 2014; Hagigi & Sivakumar, 2009; Hashai, 2011). While previous studies have attempted to provide a list of available risk management strategies (e.g. Di Gregorio, 2005; Mascarenhas, 1982; Miller, 1992), these studies fail to address how decision-makers select among them. In addition, the majority of studies focus on multinationals and fails to emphasise and focus specifically on SMEs and their unique size-related challenges. Arguably, it is inappropriate to treat SMEs as smaller versions of large companies, as they are faced by a number of unique size-related issues that requires them to have differently (Shuman & Seeger, 1986). Because of these size-related issues, SMEs are more challenged when trying to manage uncertainty and risk compared to large firms that has more organizational slack and experience (Brustbauer, 2014; Freeman et al., 2006). Thus, it can be expected that SMEs behave differently, that is, use different risk accommodation strategies to cope with risk in internationalisation. In this study, the aim is to address these shortcomings in the literature by examining how SMEs approach risk and the strategies they use to cope with risk in the internationalisation process. In addition, we attempt to explain why SMEs behave in the ways they do towards these risks.

In order to address this gap in the literature, the article proceeds as follows. First, after this introductory section the theoretical and conceptual foundation for the study is presented. Second, having provided the theoretical and conceptual background for the study, the methods will be presented to explain how the study will answer the research questions. Third, the findings are presented and discussed. Fourth, the article is concluded by presenting concluding statements and recommendations based on the findings.

5.2 LITERATURE REVIEW

5.2.1 RISK IN THE INTERNATIONALISATION PROCESS

Risk is an inherent part of strategic decisions, including those on internationalisation, where it refers to '*the degree of uncertainty and potential loss associated with the outcomes which may follow from a given behavior or set of behaviors*' (Forlani & Mullins, 2000, p. 309). This definition of risk highlights three important characteristics of risk. First, this definition highlights how risk is related to outcome uncertainty, that is, decision-makers difficulty in predicting the outcome of their decisions (Aven & Renn, 2009). As long as the future is assumed to be predetermined or independent of human actions, it makes little or no sense to even talk about risk (Zinn, 2008). While risk and uncertainty are often used as synonyms, this suggests that it is more correct to conceptualize risk and uncertainty as two conceptually different concepts (yet closely related) (Figueira-de-Lemos et al., 2011; Liesch et al., 2011). Second, risk is related to potential loss, why risk is only seen as associated with negative or disappointing outcomes (Sitkin & Pablo, 1992). While the so-called 'classical approach' treat risk as variation in the distribution of potential outcomes, including both positive and negative outcomes, seeing risk as associated with negative outcomes has been found to be more precise in terms of how managers understand and see risk (March & Shapira, 1987). Hence, while risk taking involves the potential for both loss and gain, risk itself it best described as a choice that contains a threat of a potential loss (Janney & Dess, 2006). Third, the definition highlights that risk is a multidimensional construct that involves both the likelihood of potentially significant or disappointing outcomes and the magnitude (Mullins & Forlani, 2005)

Risk has, for a long time, been at centre stage of internationalisation theory (Liesch et al., 2011). For instance, risk is a core concept in the Uppsala theory of internationalisation, according to which the perception of risk influences a firm's commitment to foreign markets (Johanson & Vahlne, 1977). It is well established in the literature that firms operating across national boundaries face additional risks and difficulties compared to domestic firms (Ghoshal, 1987; Shrader et al., 2000). For instance, Luo (2009) distinguishes between political risks, financial risks and transactional risks. Political risk refers to '*the risk that the country's government actions or imperfections of the country's executive, legislative, or judicial institutions adversely affect the value of an investment in that country'* (Bekaert et al., 2014, p. 473). Financial risk concerns the variance of the domestic currency value of asset, liability or operating income that is attributable to unanticipated changes in foreign or international financial markets and systems. The most common financial risk is foreign exchange risk, which refers to the '*additional variability experienced by a multinational corporation in its worldwide consolidated earnings that results from unexpected currency fluctuations*' (Jacque, 1981, p. 81). Foreign exchange risk exists when a financial transaction is completed in a currency different from the base currency of the company. Finally, transactional risk concerns the likelihood of disruption to a firm's investments or projects from transactional forces that are not directly associated with political or financial factors (Luo, 2009).

Taken together, extent literature shows that it is widely accepted that risk is present when doing business in foreign markets, as firms engaged in international business are exposed to a number of uncertainties and as a consequence face a "totality of risks" (Brouthers, 1995, p. 10)

5.2.2 RISK ACCOMMODATION IN INTERNATIONAL BUSINESS

Given that firms in general, and SMEs in particular, are exposed to a number of risks when expanding sales abroad and doing business in foreign markets, identifying and managing risk has been described as one of the main strategic objectives for decision-makers in firms actively involved in international business (Ghoshal, 1987; Hain, 2011). Extent literature demonstrates how risk is often a constraining factor that hinders SMEs' ability to initiate, develop and sustain business operations in foreign markets, which is why the ability of SMEs to internationalise in the face of uncertainty and risk is partly explained by their ability deal with these risks (Freeman et al., 2006). Yet, few studies has to date examined how SMEs cope with risks (Brustbauer, 2014; Falkner & Hiebl, 2015), including the risks to which firms are exposed when engaged in international business (Fernhaber & McDougall-Covin, 2014; Shrader et al., 2000).

Table 14: Overview of different risk coping mechanisms

Coping mechanism	Description	Examples
Uncertainty avoidance	Eliminating risk by abstaining from doing business in high-risk environments	• Divestment • Delay new market entry • Low uncertainty niches
Transfer	Avoiding risk by transferring the risk to another entity, such as a supplier, customer, or strategic partner	• Using local currency • Using local suppliers • Using local partners to act as distributor
Financial hedging	Making offsetting commitments in order to minimize the impact of unfavourable potential outcomes	• Political risk insurance • Catastrophic insurance • Forward market currency transactions • Advance payment
Control	Actions that seeks to control or otherwise alter the environment in which a company operates in order to reduce uncertainty in the political, social, economic or natural environment	• Political activities • Gain market power • Exchange of threats • Vertical integration • Horizontal mergers and acquisitions
Cooperation	Reducing uncertainty by cooperative responses involving multilateral agreements	• Long-term contractual agreements with suppliers or buyers • Voluntary restraint of competition • Alliances of joint ventures
Imitation	Coping with risk by imitating rival organizations'	• Imitation of products and process technologies • Follow other firms in moving into new markets
Diversification	Reducing risk by increasing organizational flexibility through involvement in various product lines and/or geographic markets	• Diversification • Operational flexibility

Source: Di Gregorio (2005); Mascarenhas (1982); Miller (1992)

As illustrated in Table 14, extent literature has identified a variety of strategies or mechanisms that can be used by decision-makers in order to address the risks to which they are exposed when involved in international business. It is possible to distinguish between two types of risk accommodation: active risk coping mechanisms and passive risk coping mechanisms (O. Huber, 2012). Passive risk avoidance involves refusing to capture international opportunities that are perceived as unacceptably risky (Shrader et al., 2000). In contrast, active risk avoidance involves actively trying to adjust the risk by identifying and implementing appropriate coping mechanisms in order to eliminate or decrease the risk (O. Huber, Huber, & Bär, 2014).

When firms, including SMEs, increase their involvement in foreign markets, the risks they face may be reduced by using two types of risk coping mechanisms: (1) *financial actions* and (2) *strategic actions* (Miller, 1992). Financial actions involve reducing or offsetting the severity of potential negative outcomes with insurance and hedging mechanisms in order to protect against risks due to foreign operations (Andersen, 2006). However, this requires the existence of markets for such financial mechanisms, which fails when it is not possible to estimate the probability of uncertainties (Shrader et al., 2000). By contrast, strategic actions involves a number of 'generic' moves that can potentially prevent or reduce the likelihood of a negative outcome or reduce the severity of a negative outcome (Shrader et al., 2000). First, SMEs may actively attempt to influence the behaviour of others in order to prevent a negative outcome (Miller, 1992). Such actions directly reduce uncertainty in the political, social, economic or natural environment. While control is a viable strategy for minimising risk, it is a less promising strategy for SMEs, because it requires resources and market power which SMEs typically lack (Child & Rodrigues, 2011; Di Gregorio, 2005). Second, SMEs may attempt to reduce risk through cooperation and coordination in order to gain access to and mobilise resources (De Clercq, Sapienza, Yavuz, & Zhou, 2012). Using intermediate entry modes enables SMEs to cope with their lack of foreign market knowledge, by linking up with intermediaries with knowledge of the local market (Lu & Beamish, 2001). Furthermore, SMEs often rely on network ties to reduce costs and gain access to important resources, thereby minimising the risks of internationalisation (Mudambi & Zahra, 2007; Schweizer, 2013). Third, SMEs may reduce the severity of a perceived risk by decreasing the cost of internal organisational adaptation to changing international circumstances, e.g., by using intermediary entry modes, such as exporting, that involve lower levels of resource commitments in the foreign market (Freeman et al., 2006).

Another way to reduce risk is by increasing flexibility via international diversification (Di Gregorio, 2005). Expanding into foreign markets provide firms with diversification benefits. For example, venturing into international markets can provide a new revenue stream while reducing their dependencies on any single market (Sahaym, Treviño, & Steensma, 2012; Zahra et al., 2000). While the relationship between international diversification and risk remain inconclusive, international diversification has often been linked with risk reduction (Andersen, 2012). Compared to firms selling only in the domestic market, firms actively involved in a number of foreign markets arguably enjoys the advantage of less risk in its profits, when compared to firms selling only in the domestic markets (Rugman, 1976). This, in turn, increases the stabilization of profits (Qian, 1996).

Thus, international diversification is likely to be associated with the twin benefits of lower risks and higher returns (Kim, Hwang, & Burgers, 1993).

Fourth, SMEs have the option to pursue 'mimetic isomorphism' (DiMaggio & Powell, 1983), that is, to imitate the actions of another company whose behaviour is judged appropriate in order to reduce the risks associated with internationalisation (Denk, Kaufmann, & Roesch, 2012). Imitating the practices of domestic firms when expanding into foreign markets enables SMEs to counteract the potential hazards associated with international expansion (Zaheer, 1995). Finally, it has been suggested that SMEs can mitigate risk by pursuing specific expansion strategies. For instance, decision-makers may actively reduce the risk of internationalisation by sticking to a dominant internationalisation path over subsequent periods (Hashai, 2011). Others suggests that firms can actively reduce the risks associated with internationalisation by internationalising in small incremental steps (Barkema & Drogendijk, 2007). As foreign experience accumulates, the perceived risk of further internationalisation declines, and additional incremental increases are made in geographic scope and foreign operations (Johanson & Vahlne, 1977).

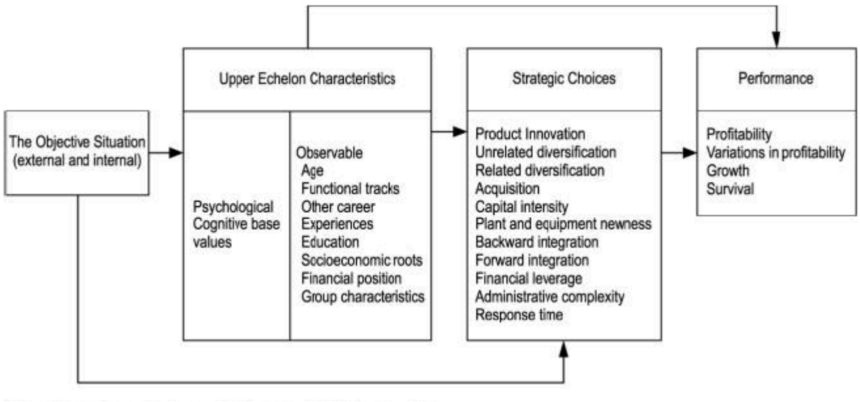
Thus, extant literature suggests that SMEs may rely on a number of coping mechanisms in order to reduce risk and uncertainty to acceptable levels as perceived by the decision-makers.

5.2.3 FACTORS INFLUENCING RISK ACCOMMODATION BEHAVIOUR

Although several strategies have been suggested for risk management in the internationalisation context, few studies have attempted to address how managers select among them, i.e., antecedents to risk accommodation strategies.

It has long been acknowledged that strategic choice is largely determined by behavioural factors (March & Simon, 1958). According to the Upper Echelon theory, strategic choices are largely determined by the characteristics of the decision-maker (Hambrick & Mason, 1984). It is generally believed that decision-makers act under bounded rationality (Gavetti, Levinthal, & Ocasio, 2007). As a consequence, decision-makers act on the basis of their personalised interpretations of the strategic situations they face (Hambrick, 2007). This 'construed reality', in turn, is a function of the decision-makers experience, values and personalities. The decision-makers experience, values and personalities influence strategic choice by (1) directing attention and thereby limit his or her field of vision, (2) filtering the decision-maker's perceptions to only selected stimuli, and (3) serving as a lens through which these stimuli are interpreted (Finkelstein, Hambrick, & Cannella, 2009). Thus, as illustrated in Figure 4, it is the decision-makers interwoven set of psychological and cognitive characteristics that determines how decision-makers perceive the strategic situation they face and gives rise to strategic choices.

Figure 4: An Upper Echelon perspective of firms



Source: Hambrick and Mason (1984, p. 198)

In line with Upper Echelon theory, several authors have emphasised the importance of exploring the role of decision-makers in explaining actions taken towards acting upon risks, since framing and practice seems to be highly related (Sullivan-Taylor & Wilson, 2009). For instance, it has been argued that the decision-makers' subjective assessment and evaluation of risk is likely to influence the respective risk-management approach adopted by SMEs (Brustbauer, 2014). The decision-maker's interpretation of the strategic situation is therefore highly likely to influence strategic decisions, including those on how to cope with the risks of internationalization (Oviatt et al., 2004). This suggests that decision-makers perception of risk and the ability to manage them are likely to shape the actions taken towards perceived risks. Similarly, Bromiley, McShane, Nair and Rustambekov (2015, p. 7) argues that '*Both the identification of risks and their mitigation depend on the models, both implicit and explicit, that managers use*'. Thus, decision-makers' perceptions of their context and the risks faced influences the actions they take and avoid in order to deal with the perceived risks associated with doing business in foreign markets.

5.3 METHODOLOGY

The purpose of this study was to explore how and to what extent the risks associated with internationalization is handled in SMEs engaged in international business. In other words, the focus of this study was on the ways in which SMEs and decision-makers deal with their concerns about the perceived risks associated with doing business in foreign markets. This was explored through a qualitative, which has become increasingly common in social science (Alvesson, 2011), including international business (Doz, 2011). A qualitative approach was deemed appropriate because of its strengths in examining and explaining organizational practices. As Doz (2011, p. 583) argues: "*Qualitative research is uniquely suited to "opening the black box" of organizational processes*, *the "how", "who", and "why" of individual and collective organized action as it unfolds over time in context'*. Thus, a qualitative research approach was not only useful for determining the risk management strategies and coping mechanisms used by SMEs and their decision-makers in internationalising SMEs, in order to deal with the risks related to internationalisation, but also to explain *why* SMEs and decision-makers behave as they do.

In line with traditions in qualitative research, participants were selected for purposive rather than statistical reasons (Eisenhardt, 1989). More specifically, participants were selected using *criterion sampling*, why participants were selected based on a set of predetermined criteria's important to the study (Patton, 2002). Given that the purpose of this study was to examine how and to what extent SMEs cope with the risks associated with doing business in foreign markets, cases had to fit two sampling criteria to be considered eligible for this study. First, cases had to be classified as an SME. However, defining SMEs is not straightforward, as a number of different definitions of SMEs exists (Brouthers & Nakos, 2004). For the purpose of this study, SMEs are defined as non-subsidiary, independent firms that employ fewer than 250 employees. This is also the most frequently used definition across OECD countries (OECD, 2005), and is also widely used in the literature (Agndal et al., 2008; Galkina & Chetty, 2015; Hilmersson, 2014; Moen et al., 2015). Second, given that the study was interested in examining how and to what extent SMEs cope with the risks associated with doing business in foreign markets, cases had to be actively involved in international business.

Next, a database containing information on Danish companies was used to create a list of eligible cases that fulfilled these two sampling criteria (Yin, 2009). Then eligible firms were approached via telephone and asked for their willingness to participate in the research. To increase variability in the sample, SMEs from four different industries were contacted (Flyvbjerg, 2006). Altogether, 32 agreed to participate in this study. See Table 15 for an overview of the important characteristics of the sample in terms of industry, age, size and export ratio.

Table 15: Characteristics of the sample

	No. of firms	% of all firms
Sector:		
Food	5	16%
Garment/Textile	10	31%
ICT	9	28%
Food	8	25%
Firm age:		
10-20	10	31%
21-30	9	28%
31-40	3	9%
41-50	2	6%
More than 50	8	25%
Employees:		
Less than 20	8	25%
20-49	8	25%
50-100	10	31%
More than 100	6	19%
Export Ratio:		
1-10%	0	0%
11-50%	4	13%
51-90%	19	59%
More than 90%	8	25%

5.3.1 DATA COLLECTION

Data was primarily collected by the means of semi-structured interviews with key decision-makers who had in-depth knowledge of their firms' international operations and had a direct impact upon the decisions related to the internationalisation strategy. Interviewing is a well-established and frequently used method for gaining access to key decision-makers and their mind-sets (Welch et al., 2002). Semi-structured interviews were used because this technique allowed us to generate detailed in-depth descriptions of the decision-makers' experiences in relation to internationalization, including their experiences of the risks associated with doing business in foreign markets and the coping mechanisms used to deal with these risks (Kvale & Brinkmann, 2009; Roulston, 2010). In addition, because of the flexibility of the semi-structured interview it was possible to ask probing questions in order to identify the reasons for the chosen coping mechanisms. Another reason for the choice of interviews was because interviewing is likely to be the most effective means for gathering data, as SME decision-makers are often reluctant to complete questionnaires and disclose commercially sensitive information (Bell et al., 2004; Carson, 1995).

To ensure some direction in the data collection stage, and minimize the risk or ‘interviewer effect’, an interview protocol reflecting the research questions was developed prior to collecting the data (Hilmersson & Jansson, 2012). The interview guide included a list of questions to be covered on topics related to the internationalisation of the firm. The interviewees were first asked to describe their firm in general, including the when and how it was founded, the size of the company in terms of turnover and number of employees, the products offered, and the perceived core strengths of the firm. Next, the interviewees were asked about the internationalization process, including when the firms started doing business in foreign markets and how the internationalization has developed over time. Finally, decision-makers' were asked about the main risks faced when doing business in foreign markets, the implications of these risks and the strategies used to cope with these risks and uncertainties.

Altogether, 47 hours of interview were collected. Each interview lasted between 90 and 120 minutes, with an average of 88 minutes. All interviews were conducted face-to-face at the firms’ locations between January 2013 and November 2014. To help overcome natural constraints in memory and allow for a more thorough analysis of the content of the interviews, all interviews were recorded and transcribed verbatim.

5.3.2 DATA ANALYSIS

In order to explore how the participants experience and cope with the risks faced when doing business in foreign markets, the data were analysed using a combination of inductive and deductive coding. However, before the actual coding, all transcripts were read multiple times, in order to prepare for the following steps in the data analysis. The goal of this was to become familiar with the data and acquire a holistic view of the data before engaging in more detailed coding (Braun & Clarke, 2006). While reading the transcripts, rich or significant participant quotes or passages related to the decision-makers perceptions of risk associated with internationalisation or how SMEs and decision-makers deal with their concerns about these risks were highlighted.

Interview transcripts were coded in an iterative process using a combination of data-driven and theory-driven coding strategies (Fereday & Muir-Cochrane, 2006). First, the literature review was used as a means to generate a number of sensitising codes (Huberman & Miles, 1983; Kvale & Brinkmann, 2009). In addition, data-driven coding was used to explore the data for potential risk accommodation strategies not identified in the literature review. Data-driven codes were used when the data did not fit the concept-driven codes or when the data expanded on the sensitising codes (Fereday & Muir-Cochrane, 2006). Thus, the coding was informed by the theory-driven codes, but not confined.

The purpose of this study was to move beyond description and identify the reasons for the chosen risk accommodation responses. Hence, the data was examined and coded for relational statements that could help explain *why* the participants used different coping mechanisms in order to deal with the risks associated with doing business in foreign markets. Accordingly, to achieve this 'conceptual leap' the data was coded for causal and intervening conditions that could help explain the behaviour of the participants (Klag & Langley, 2013; Strauss & Corbin, 1998).

The analysis was facilitated by NVivo 10. NVivo was used both as a means for coding the data, but it was also used for more advanced queries in order to discover patterns in the data (Bazeley & Jackson, 2013). This made it both easier and faster to process and categorise large amounts of qualitative data and to run advanced queries, in order to compare and contrast cases (Bazeley & Jackson, 2013). Second, using NVivo helped increase the rigour, by creating an audit trail and demonstrating the link between data and conclusions, making sure the conclusions were verifiable (R. R. Sinkovics et al., 2009). In other words, using NVivo in the different steps of the analytic process helped ensure the quality of the findings.

5.4 FINDINGS

The purpose of this study was twofold: (1) to identify the coping mechanisms used to deal with the risks associated with doing business in foreign markets and (2) to explain the factor influencing the actions taken towards dealing with these risks. In the following, the findings of this study are presented.

5.4.1 RISK ACCOMMODATION IN THE INTERNATIONALISATION PROCESS

To explore how SMEs and key decision-makers deal with the risks associated with doing business in foreign markets, interview transcripts were examined and information related to risk accommodation was categorised according to one of three categories: (1) active risk coping, (2) passive risk coping, and (3) non-coping. The first category of risk accommodation involved *actively* reducing (or eliminating) the risks associated with international opportunities. The second category of risk accommodation also involved reducing the overall level of risk associated with internationalisation. However, instead of actively trying to reduce and/or eliminate risk through risk-defusing mechanisms, this coping strategy involved reducing risk by abstaining from capturing international opportunities or withdrawing from markets perceived as risky.

Results show that the most common way to deal with the risks associated with doing business in foreign markets was to use a variety of risk coping mechanisms in order to safeguard against these risks, while there was only a few situations where the SMEs decided not to take any precautionary actions to deal with the risks. Table 16 provides an overview of the different risk coping mechanisms used by the SMEs to deal with the risks associated with doing business in foreign markets.

Table 16: Risk coping mechanisms and illustrative quotes

Coping strategy	Tactics	Illustrative quotation from interviews
Avoidance	Delaying new market entry	So many firms that have burned their fingers, which is why we are reluctant to go there. If we are not completely sure about our setup we will simply not expand into that market
	De-internationalisation	We actually withdrew from Germany and Sweden because we were not able to perform according to our own requirements. So we actually chose to refuse a lot of potential turnover
	Requiring pre-payment	If someone cannot be credit insured we will insist that they pay in cash up front. And if they don't want to do that they cannot buy anything from us.
Cooperation	Reliance on export intermediaries	They buy directly from us. We label the goods to the different shops, but the importer gets all the goods to their warehouse in Moscow and then they deliver it out form there. And they invoice them directly and they have the risk with the customers. We have the risk with the importer, not with all the shops.
	Building relationship with local authorities	We have a close relationship with the local authorities. They will contact us if they have changes their rules or regulation, so that we have the chance to implement these changes into our software before it becomes official.
Flexibility	Buffering	We put aside money every year so that we have the money to absorb the potential loss
	Diversification	Expanding into foreign markets is also a way to reduce your risk. For instance, if Germany is not doing well, then Scandinavia might be doing well. So that is the main reason why we are in so many countries
Prediction	Credit assessment	All new customers and business partners undergo credit rate check, but most often the results are negative because our customers are struggling
	Monitoring	We of course keep a close watch on the customers who might be in trouble and we have a system that can be used to warn us.
Transfer	Financial hedging	All our receivables are partly credit insured and a significant portion of the company's receivables are hedged using other forms of security.
	Billing in local or hard currencies	Today we do business in the Middle East in Euro. We do business in Russia in Euro. We do business in Poland, Czech Republic, Hungary, Estonia, and Latvia. It all happens in Euro regardless of whether or not their local currency is Euro.

SMEs were most often found to search for ways in which risks associated with capturing international opportunities could be reduced or perhaps even eliminated. These behavioural actions mentioned during the interviews were either intended to prevent a negative outcome from being realised or to compensate the firm, if a negative outcome should occur. A number of financial actions were used to compensate the firm in this instance. For example, insurance was a widely used means to reduce exposure to risks by transferring the risk to another party, by means of an insurance policy. When confronted with financial risks or credit risk, the case firms mostly used external financial instruments, such as export credit insurance. One of the most widely mentioned concerns during the interviews was the concern about exchange partners' opportunistic behaviour, that is, '*self-interest seeking with guile*' (Williamson, 1975, p. 9). For instance, insolvency or protracted payment default by foreign customers was a key concern for many decision-makers. For example, the Owner-Manager of a textile company commented: '*The biggest risk associated with exporting is not being paid. As soon as you move into foreign markets, the willingness to pay is not that big compared to local firms'* (Owner-manager, AccesCo). Insurance was often the primary tool for minimising this type of risk. For instance, many SMEs relied on export credit insurance to protect the firm against the risk of non-payment by a foreign customer. Other SMEs were in a position where they could protect the firm against this risk by insisting on advance payment. While insurance enabled the SMEs to transfer the perceived risk to another party, it had cost implications and reduced margins.

In addition, the SMEs took a number of strategic actions in order to actively attempt to reduce the level of risk associated with capturing international opportunities. Given that SMEs, because of their limited resources and power, are often unable to directly engage with environmental complexities, these firms were relying on third parties to face and deal with internationalisation risk. As previously mentioned, in comparison to large multinational enterprises, SMEs are typically regarded as resource-constrained, lacking the market power, knowledge and resources required to successfully operate in foreign markets. In order to overcome resource constraints, these SMEs were relying on external parties to gain access to and acquire resources required for internationalising, including knowledge, advice, and legitimacy. For instance, one of the manufacturing companies producing de-centralised ventilation units explained how relying on third parties had enabled the company to internationalise, despite not having the resources to ensure adequate and efficient customer service in foreign markets:

> *'After you make your first sales in foreign markets, it will be life as usual. Customers, who start asking why the product doesn't work, contact you. And if you don't have the resources and linguistic and technical competencies to address these inquiries professionally you are in deep trouble. That is also why we have decided to use local partners in foreign markets'* (CEO, AirCo).

The importance of third parties in the internationalisation process of SMEs was described by the managing director of one of the textile companies, who explained how identifying the right intermediary is crucial in the process of evaluating international opportunities and can be the decisive factor in the decision to capture international opportunities: '*If we don't find a business partner we aren't completely comfortable with then we won't go there*' (Owner-manager, SailCo). Building strategic partnerships with local intermediaries also enables the SMEs to transfer some of the risk associated with internationalisation to the intermediary. As the CEO of one of the ICT companies explained:

> *'Relying on strategic partners is the first step in covering your risks, because you know the terms of your agreement with a local partner. That is all you have to consider. What they do towards the end customer is really theoretically none of your business. It is their obligation to forward your license terms, so it is their obligation to pay us based on their terms regardless of what happens at the end customer. Reality sometimes is different, but that is one of the things you can do'.* (Vice President of Sales, MicroCo)

Thus, the SMEs relied on intermediaries to sell their products and services in foreign markets to overcome knowledge gaps and reduce uncertainties associated with operating in foreign markets.

Another tactic mentioned for reducing the risk of internationalisation involves information internationalisation. Information internalisation refers to the process of 'absorbing both tacit and explicit information into the organisation and translating it into knowledge, which is then applied for some purpose' (G. A. Knight & Liesch, 2002, p. 983). Limited knowledge about foreign markets is a critical source of uncertainty and risk in the internationalisation process (Eriksson, Jonsson, Lindbergh, & Lindstrand, 2014). Thus, to alleviate the risks inherent in internationalisation, firms engage in knowledge acquisition (information internalisation). The SMEs were actively trying to acquire information and knowledge about foreign markets in a number of ways. One way to acquire knowledge was through hiring people that possess some knowledge and competencies that are needed, but which were not available previously. This is also referred to as grafting (Huber, 1991). For instance, some interviewees explained how hiring external board members who have international experience could provide the company with much needed advice about potential pitfalls when internationalising and thereby increase awareness of the risks inherent in internationalisation and enable them to take precautionary actions. One of the case firms expressed how they have been very selective in identifying and hiring external board members:

> *'We actually formed a board of directors the day we left [the old employer], because we were all kind of used to being part of a big organisation… We knew everything about product development, but nothing about legal stuff, being a small company… So we basically wanted to boost the competencies that we did not possess ourselves. So we formed a professional board from the beginning… We actually searched for members who did not possess the same competencies as we possessed, but had the competencies that we needed'* (Owner-Manager, BlueCO).

Thus, the data suggests that some SMEs actively tried to alleviate the risks associated with internationalisation by connecting with external persons with international experience and using them as sparring partners in strategic decision making. Another example of information internalisation is relying on intermediaries when operating in foreign markets. This provides access to local market experience and contacts with potential customers, thus increasing knowledge about foreign markets and reducing risk. Others use their social networks to gain access to social capital in the form of information and knowledge. Thus social networks offer a potentially efficient way to overcome the constraining effects of risk and uncertainty.

In contrast, the passive risk mitigation mode involves abstaining from capturing international opportunities that are perceived as risky. Whereas the existing literature on SME internationalisation and international entrepreneurship often portrays decision-makers who recognize and capture opportunities across national borders as risk-seeking individuals, the results of this study reveal that most decision-makers participating in this study perceive themselves as risk-averse. As the CEO of a firm producing detergent argues: '*we are very conservative. We don't jump into something that could ruin the company. We don't take any kind of risk when we go international*' (CEO, CleanCO). Similarly, another participant argued, 'Overall we don't take any risk. That's something time has taught us'. This suggests that participants abstain from exploiting (international) opportunities if they are perceived as risky. Therefore, these firms were trying to reduce the overall amount of risk associated with internationalisation.

The SMEs that were coping with risk and uncertainty by reducing risk or removing it altogether were doing so by desisting from capturing international opportunities that involved a lot of risk. For instance, one of the informants explained how they abstain from engaging in markets that are perceived as risky:

> *'Eastern European countries are really interesting. They are starting to buy branded items from western countries. So we will definitely expand east eventually. We have a finish contact, which have a good connection in Russia. But you have to make sure it's a safe bet. It's dangerous because of all the corruption. There are so many examples of companies that have crossed the line, which is also why we're very reluctant to go there. If we don't find a partner we're completely comfortable with, then we won't go there.'* (CEO, TechCO)

Similarly, the CEO of a medium-sized manufacturing companies argued:

> *'If we can't get the business 100% covered or 90% covered, we would rather say no than take it. And that can in some instances constrain our growth, especially since there have been problems with having credit approved, credit assured customers on some markets. We have a big interest in some markets, where there are some quite big companies interested in getting our environmental products. But where we simply can't get them credit assured, and we don't ourselves take a risk, we simply don't want to, so we can simply not get into that market. It is of course very unfortunate, when we can see the market is there, but we have not been able to collect insurance that would cover this'.* (CEO, CleanCO)

This also implies that while abstaining from pursuing different international opportunities eliminates some risk, it increases the risk of missing out on international opportunities, which may eventually increase opportunity costs.

5.4.2 FACTORS INFLUENCING RISK ACCOMMODATION

In general, the risk accommodation behaviour of SMEs appears to be influenced by the perceptions of key decision-makers. Thus, strategic actions, including those related to how the risk of internationalisation is managed, are shaped by key decision-makers' selective perception of the environment. First and foremost, the way the risk of internationalisation is managed is influenced by the decision-makers' subjective assessment of the risk inherent in internationalisation. Our findings indicate that the risk of internationalisation is evaluated and assessed differently by the different informants. In general, SMEs appears to be more likely to make behavioural choices that actively reduce or eliminate the risk associated with internationalisation if internationalisation is perceived as highly risky, and vice versa. For instance, when asked about how the firm deals with perceived risk, the Owner-Manager of a food company explains how '*...the risk is not higher than we have decided no to take any precautionary action to reduce these risks*' (CEO, MeatCO). This finding is rather logical, considering that decision-makers can only react to risks if they are aware of their existence. This suggests that an awareness of risk is a necessary condition to explain SMEs' risk mitigation behaviour in the internationalisation process. Thus, higher risk perceptions tend to lead to precautionary behaviour. Thus, the first proposition is that:

> **Proposition 1:** *SMEs are less likely to actively attempt to reduce or eliminate perceived risk by using risk-defusing operators when key decision-makers perceive little or no risk.*

In addition, whether the perception of high levels of risk leads to risk-defusing behaviour appears to be contingent upon the decision-makers' assessments about whether or not the chances of loss from perceived risks can be reduced or avoided altogether. For instance, the assumed cost of applying a risk-defusing operator appears to influence the risk accommodation behaviour of SMEs. While risk-defusing operators may reduce or eliminate the risks associated with internationalisation, they have their own attendant costs. Thus, the decision-makers were weighing up the benefits against the costs, and if the costs exceed the benefits, the decision-maker will be less likely to accept the risk-defusing operator. For instance, the CEO of a textile company explained how credit risk was a big issue. However, the company had decided not to use credit insurance, because the costs was considered too high: *'I would estimate that 40-50 pct. of our customers don't have a good credit report. So what can you do? ... Previously we used credit insurance, but now we have decided not to. We don't have any insurance because of the high price'* (Owner-manager, LeviCO). Thus risk-defusing behaviour depends on both risk awareness and the decision-maker's perceived ability to reduce or avoid the perceived risk. This leads to the second proposition:

> **Proposition 2:** *SMEs are more likely to cope with the risk associated with internationalisation by enacting risk-defusing operators if key decision-makers' coping appraisal is high rather than low.*

In addition, previous experience seems to have an important role in explaining SMEs' risk accommodation behaviour. Results suggest that SMEs learn about the risk implications of internationalisation through experience. Thus, SMEs' capacity to assess and manage risk is partly explained by prior experience. Our findings show that prior experience was an important reason for actively trying to reduce or eliminate perceived risk. SMEs were more likely to use various risk-defusing operators when the firm had previously experienced negative consequences from engaging in international business. For instance, when asked why the company has decided to use credit insurance to protect their exports against losses, the CEO of an international menswear and womenswear brand, explained how *'Time has taught us. We have simply lost too much money over the years*' (Owner-Manager, SailCO). Similarly, the Owner-Manager of a company selling fashion accessories explained how it has become company policy that foreign customers that cannot be credit insured have to pay in advance:

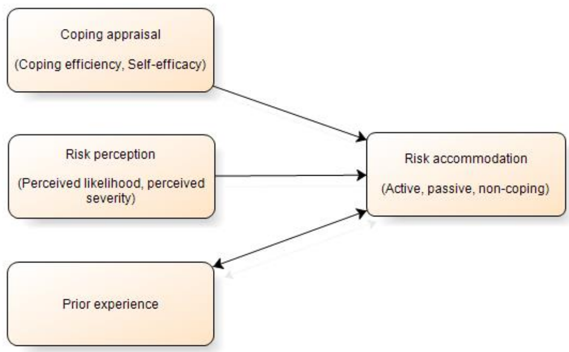
> *'If we receive an inquiry from a foreign customer that cannot be credit insured we will insist that they pay in advance and if they refuse to do that we have to tell them that they cannot buy anything from us. We have simply lost too much previously'* (Owner-manager, AccesCO).

In contrast, SMEs appeared to be less motivated to engage in risk-defusing behaviour if they had previously had success with taking a given risk. For instance, the Owner-Manager of a manufacturing company producing and selling joints and fittings explained: '*Sometimes we deliberately take a chance and so far we have been spared from any big losses… we have experienced a few losses, but in general we are doing fine*' (CEO, PolyCO). These findings suggest that SMEs sometimes deliberately make decisions that involve some degree of risk because they have been successful in taking chances previously. This leads to the third proposition:

> **Proposition 3:** *SMEs are more likely to actively minimise the risk of internationalisation if they have previously experienced negative outcomes from engaging in international business.*

Figure 5 show the overall findings in relation to the factors influencing SMEs' risk accommodation behaviour in the internationalisation process. In summary, decision-makers' perceptions of risk associated with internationalisation were found to influence the strategic actions taken in the face of risk. In addition, the findings show that the decision-makers evaluation of his or her ability to cope with perceived risks, including the costs of coping, influence the likelihood of SMEs taking precautionary actions to safeguard against losses when engaged in international business. Finally, prior experience, that is, the extent to which the firm has previously experienced negative consequences from engaging in international business, was found to influence SMEs' propensity to take precautionary actions.

Figure 5: Factors influencing risk accommodation



5.5 DISCUSSION AND CONCLUSION

The purpose of this study was to explore the coping mechanisms used in SMEs to deal with the risks associated with doing business in foreign markets. Such exploration is important given that risk is often considered a constraint that hinders SMEs' ability to initiate, develop or sustain business operations in foreign markets. Thus, the ability of SMEs to internationalise in the face of risk is partly explained by their ability to make use of different coping mechanisms (Liesch et al., 2011).

Our findings revealed some interesting insights into how SMEs approach risk and the strategies used to cope with these risks. Furthermore, this study identifies important antecedents to the selection of strategies used to handle the risk in internationalisation, showing how SMEs' risk accommodation behaviour is (at least partly) explained by the interpretations of the decision-maker.

Our findings are in line with previous studies showing that strategic choices, including those on internationalisation, are largely dependent upon decision-makers' interpretations of the environment (Hambrick & Mason, 1984; Nielsen & Nielsen, 2011). In addition, the results of this study are consistent with previous findings emphasising the centrality of risk perceptions in explaining SME internationalisation behaviour (e.g. Acedo & Florin, 2006, 2007; Acedo & Jones, 2007). Finally, the results of this study suggest that the decision to capture opportunities across national borders is not necessarily the outcome of more willingness to bear uncertainty and risk. Thus, in contrast to existing literature that often identifies high risk propensity as a necessary condition for internationalisation (e.g. Butler, Doktor, & Lins, 2010; Covin & Miller, 2014; Dimitratos & Plakoyiannaki, 2003; Dimitratos, Voudouris, Plakoyiannaki, & Nakos, 2012), our findings suggests that the ability to recognise and implement appropriate coping strategies may also be seen as a hallmark of internationalising SMEs.

Although this study is a response to recent calls for research on risk in the internationalisation process (e.g. Figueira-de-Lemos et al., 2011; Liesch et al., 2011), several promising and interesting avenues for further research remain. First, based on the results of this study, a number of propositions have been proposed. These propositions should be examine empirically with a larger sample of firms in order to increase the statistical generalisability of the results. Second, given that managers' perception of the risks associated with international expansion seems to be an important variable in explaining firm internationalisation, future studies may want to examine the factors which can influence managers' risk perception.

6 INTERNET AS A RISK-COPING MECHANISM IN SME INTERNATIONALISATION[3]

Jonas Eduardsen

Abstract: Risk is a prominent construct in internationalisation research, where it refers to instabilities and vulnerabilities faced by companies engaged in international business, which impose limitations, restrictions or even losses. Yet, limited attention has been devoted to the question of how SMEs deal with these risks in order to increase their involvement in foreign markets. In this paper, the internationalisation process theory was used as a lens through which to examine the role of the Internet as a risk-reducing mechanism in the internationalisation of SMEs. Based on in-depth interviews with key informants in a range of Danish SMEs, results show how the Internet has the potential to reduce the risk associated with doing business in foreign markets by increasing the amount of international market information available to firms as well as reducing a number of costs associated with internationalisation.

Keywords: Risk; Internationalisation; Internet; Uncertainty; Learning; Knowledge; Market commitment

6.1 INTRODUCTION

The purpose of this study was to investigate the role of the Internet in SMEs seeking to expand their business abroad. Specifically, the study investigates the role of the Internet as a risk-reducing mechanism, as risk is generally acknowledged as a constraining factor in the internationalisation process of firms (Figueira-de-Lemos et al., 2011; Liesch et al., 2011). Hence, this study responds to recent calls for research to explore and explain how the Internet, as a global techno-social system, provides

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new and enhanced opportunities for SMEs to manage and overcome the challenges of internationalisation (Plakoyiannaki, Kampouri, Stavraki, & Kotzaivazoglou, 2014; Reuber & Fischer, 2011; N. Sinkovics, Sinkovics, & Jean, 2013).

An increasing number of SMEs are expanding their involvement in foreign markets, despite facing a number of size-related constraints (Hessels & Parker, 2013). While our knowledge and understanding of SME internationalisation has increased in recent years, the true impact of the Internet on this phenomenon has yet to be fully examined (N. Sinkovics et al., 2013). Arguably, the Internet has provided SMEs with new opportunities and tools for reducing resource-constraints (Sasi & Arenius, 2012), enabling such firms to internationalise more rapidly (Yamin & Sinkovics, 2006). Researchers are predicting the that Internet will revolutionise how firms internationalise and result in a higher degree of internationalisation, by reducing internationalisation barriers such as informational and financial barriers (T. Nguyen & Barrett, 2006). For instance, it has been argued that the Internet has the potential to reach and generate more foreign customers, by increasing a firm's visibility in foreign markets (Loane, 2006). In other words, many believe that the Internet makes it possible for SMEs to realise their international ambitions, by helping them neutralise traditional internationalisation barriers, which were previously holding them back. By contrast, others have argued that the true impact of the Internet on firm internationalisation is complex and by no means evident (Karavdic & Gregor, 2005; Petersen, Welch, & Liesch, 2002). Some even argue that the Internet may have a negative effect on firm internationalisation (Reuber & Fischer, 2011; Yamin & Sinkovics, 2006).

In order to examine the relationship between the Internet and the internationalisation process of SMEs, the purpose of this paper is to explore how SMEs use the Internet as a means to mitigate the risks associated with doing business in foreign markets. Arguably, the Internet has the potential to facilitate small business internationalisation and can be used to assist to reduce the risks associated with internationalisation (S. Mathews & Healy, 2007; Petersen et al., 2003). The effect of the Internet on the level of risk associated with internationalisation is, however, by no means unequivocal; it may also have introduced new types of risk which stem from the uniqueness and distinctive characteristics of the Internet (Caldwell, Harland, Powell, & Zheng, 2013; Grant, Edgar, Sukumar, & Meyer, 2014; Pezderka & Sinkovics, 2011). Thus, there is a need for a more holistic research focus on the Internet’s influence on the amount of risk associated with internationalisation, in order to explore the relationship between the Internet and SME internationalisation. Understanding how the Internet influences the risk and uncertainty associated with internationalisation is important, as existing literature has highlighted the centrality of risk as an important variable in SMEs' internationalisation (Liesch et al., 2011). For instance, risk has been found to help explain internationalisation propensity (Cavusgil & Naor, 1987; Simpson & Kujawa, 1974), degree of internationalisation (Acedo & Florin, 2006), speed of internationalisation (Acedo & Jones, 2007; Oviatt & McDougall, 2005), and the number of countries in which the firm is engaged (Kiss et al., 2013). These empirical findings emphasise the importance of understanding the factors influencing the risks associated with internationalisation, including decision-makers' perception of these risks.

The paper proceeds as follows: having provided the introduction and background for this study, the following section reviews the relevant literature and presents the theoretical background. Second, the methodological approach used is discussed and justified, including the procedures and techniques used for collecting and analysing the empirical data. Third, the findings are presented. Fourth, these findings are discussed and assessed in comparison with previous research. Finally, the contributions and the implications of the study are discussed and a number of topics perceived as promising avenues for future research are presented.

6.2 THEORETICAL BACKGROUND

6.2.1 RISK IN THE INTERNATIONALISATION PROCESS

Risk has long been a central concept in internationalisation research (Liesch et al., 2011), where it refers to '*the dangers firms faced in terms of limitations, restrictions, or even losses when engaging in international business'* (Ahmed et al., 2002, p. 805). For instance, risk is a cornerstone of the internationalisation process theory, according to which the perception of risk influences firms' commitment to foreign markets (Johanson & Vahlne, 1977). Risk is generally described as a constraining factor hindering SMEs' capacity to initiate, develop or sustain business operating in overseas markets (Acedo & Casillas, 2007; Kahiya, 2013; Leonidou et al., 1998; Liesch et al., 2011). In essence, it is argued that a firm's international commitment is unlikely to increase unless the risk and uncertainties associated with an increasing involvement in foreign markets is reduced to an acceptable level (Figueira-de-Lemos et al., 2011; Johanson & Vahlne, 1977). Empirical evidence also suggests that risk is central in explaining why some SMEs and not others decide to internationalise (Cavusgil & Naor, 1987; Simpson & Kujawa, 1974) as well as the degree (Acedo & Florin, 2006) and speed (Acedo & Jones, 2007) of internationalisation. Hence, it is not surprising to find that risk is considered a key construct in explaining firm SME internationalisation.

It is now well established in the literature that firms operating across national borders are confronted with a number of risks, some of which are unique to firms operating across national borders (Ghoshal, 1987; Shrader et al., 2000). For instance, internationalisation is arguably accompanied by a number of risks, including, among others, foreign exchange risks (Batten et al., 1993; Jacque, 1981), political risks (Bekaert et al., 2014; Jiménez & Delgado-García, 2012; Kobrin, 1979), country risks (C. L. Brown et al., 2015; Di Gregorio, 2005; Luo, 2009) and cultural risks (Hain, 2011). SMEs therefore face a dilemma: one the one hand, internationalisation provides SMEs with an opportunity for growth, while on the other hand, internationalisation exposes SMEs to heightened risks, which may negatively influence the performance and well-being of the company (Brouthers, 1995; Prashantham & Floyd, 2012). Consequently, internationalisation is occasionally described as risk behaviour, that is, a situation where the expected outcomes are uncertain, the decision goals are difficult to achieve, and the potential outcome set includes some extreme consequences (Oviatt & McDougall, 2004; Sitkin & Pablo, 1992).

According to internationalisation process theory, which is one of the most extensively used theories within academic inquiry on internationalisation of SMEs (Coviello & McAuley, 1999; Ruzzier et al., 2006), risk is correlated to existing market commitments and existing market uncertainty (Johanson & Vahlne, 1977). Market commitment is concerned with the amount of resources committed as well as the degree of commitment, that is, the transferability of resources (Johanson & Vahlne, 1977). Thus, commitment is best described as the '... *the product size of the investments times its degree of inflexibility*' (Johanson & Vahlne, 2009, p. 1412). It is possible to distinguish between tangible and intangible commitments (Hadjikhani, 1997). According to Figueira-de-Lemos and Hadjikhani (2014, p. 335), tangible commitments are '*those for which it is possible to plan or calculate both the input costs and output outcomes, such as the given examples of production plants, subsidiaries' offices, transportation vehicles or even other less obvious like suppliers' subcontracts*', while intangible commitments '*are those for which the input costs are quantifiable, but the outcomes difficult to estimate'*. Examples of intangible commitments include personnel education, advertisement actions, managers' meetings or relationships inside and outside the firm. Thus, a firm's market commitments can be made in tangible or intangible assets for specific foreign markets (Figueira-de-Lemos et al., 2011).

Market uncertainty is concerned with *'the decision-makers' perceived lack of ability to estimate and predict the present, and future, market and market-influencing factors*' (Hilmersson et al., 2015, p. 236). While risk and uncertainty are often used as synonyms (Liesch et al., 2011), this suggests it is perhaps more correct to conceptualise risk and uncertainty as two conceptually different concepts (which are closely related) (Figueira-de-Lemos et al., 2011). More specifically, risk is best defined as a situation where the outcome is uncertain (i.e., uncertainty as an antecedent of risk) (Aven & Renn, 2009). According to Yates and Stone (1992), individuals can be uncertain about loss categories (i.e., uncertainty about potential outcomes) as well as which losses will occur. In other words, uncertainty has to do with decision-makers' difficulty in predicting the future, that is, the outcomes of their strategic decision-making.

It is generally acknowledged that internationalisation involves a high degree of uncertainty, as firms are venturing into ‘strange new lands’ (Maitland & Sammartino, 2014; Oviatt et al., 2004; Schweizer et al., 2010). Different sources of uncertainty have been discussed and investigated in the existing literature. As illustrated in Table 17, Miller (1992) distinguishes between three sources of uncertainty when engaged in international business: (1) general environmental uncertainties, (2) industry-specific uncertainties and (3) firm-specific uncertainties. General environmental uncertainty refers to uncertainties that are consistent across all industries within a given country, such as political, economical, social and natural uncertainties (Brouthers, 1995). Industry specific uncertainties refer to the uncertainties associated with differences in industry/product-specific variables, such as input market uncertainties, product market uncertainties and competitive uncertainties. Finally, while both general environmental uncertainties and industry-related uncertainties affect firms operating in the same country or industry, firm-specific uncertainties are often unique and internal to the firm (Miller, 1992). Firm-specific uncertainties include, among other things, uncertainties related to collectibles, opportunistic behaviour, uncertainties about the outcome of R&D investments, production uncertainties, and uncertainties related to unanticipated harmful effects due to faulty or defective products (Miller, 1992).

Table 17: Sources of uncertainty when doing business in foreign markets

Category	Description	Examples
General environmental uncertainties	Uncertainties that affect the business context across industries	- Political uncertainties - Government policy uncertainties - Macroeconomic uncertainties - Social uncertainties - Natural uncertainties
Industry-specific uncertainties	Uncertainties associated with differences in industry/product-specific variables	- Input market uncertainties - Product market uncertainties - Competitive uncertainties
Firm-specific uncertainties	Uncertainties that are unique and often internal to the firm	- Operating uncertainties - Liability uncertainties - R&D uncertainty - Credit uncertainty - Behavioral uncertainty

Source: Miller (1992).

Uncertainty may either be pure or contingent (Figueira-de-Lemos et al., 2011). While it is impossible to reduce or eliminate pure uncertainty, contingent uncertainty can be reduced with knowledge and skills as well as risk-controlling strategies (F. H. Knight, 1921; March & Shapira, 1987). According to the internationalisation process theory, uncertainty is correlated with international knowledge (Johanson & Vahlne, 1977), which has been shown to be a key resource leading to internationalisation (Fernhaber, McDougall-Covin, & Shepherd, 2009; Reuber & Fischer, 1997). Uncertainty has been used to refer to '*the lack of confidence about one's knowledge*' (Jauch & Kraft, 1986, p. 782) and is arguably the result of a disparity between the international knowledge *needed* and the international knowledge *possessed* by the firm for successfully increasing involvement in foreign markets (Hilmersson & Jansson, 2012; Petersen, Pedersen, & Lyles, 2008). SMEs seeking to expand their business abroad may lack *institutional knowledge*, which consists of knowledge of the institutional framework, rules, norms and values, *business knowledge*, which refers to knowledge of foreign markets and opportunities as well as knowledge about local cultures, or *internationalisation knowledge,* which concerns how to develop and execute an internationalisation strategy and internationalise in different countries (Eriksson, Johanson, Majkgard, & Sharma, 1997; Fletcher & Harris, 2012). Viewing uncertainty as the result of knowledge gaps implies that uncertainty is reduced by increasing the amount of information available to the decision-maker (Lipshitz & Strauss, 1997). Hence, risks are inversely related to market knowledge (Casillas, Barbero, & Sapienza, 2015). It is well-established that firms are able to reduce uncertainty by acquiring tacit knowledge through experiential learning (Forsgren, 2002; Johanson & Vahlne, 1977). However, while a firm's experience is an important source of knowledge for internationalisation, it is not the only one. Firms may also acquire the necessary knowledge by other means, including grafting (i.e., hiring people or acquiring business units), vicarious learning (i.e., from the experience of others) and external search (i.e., scanning the environment and conducting a focused search for new information) (Fletcher & Harris, 2012; G. P. Huber, 1991). For example, empirical evidence suggests that network ties can also be a core source of knowledge in the internationalisation process, especially for SMEs (Ellis, 2011; Johanson & Vahlne, 2003, 2009; D. D. Sharma & Blomstermo, 2003). The information-intensive environment provided by the Internet may also be an important source of knowledge when expanding into foreign markets, offering a range of information sources and increasing information availability (S. Mathews, Healy, & Wickramasekera, 2012; T. Nguyen & Barrett, 2006). Knowledge is therefore considered a key factor in explaining internationalisation, which can be acquired by using a mixture of both internal and external sources (Casillas et al., 2015; Fernhaber et al., 2009).

In addition, risk is related to the amount of resources committed and the transferability of those resources (Johanson & Vahlne, 1977). Thus, firms can reduce the level of risk associated with internationalisation by reducing the amount of resources committed or the level of vulnerability associated with adverse outcomes (Cho & Lee, 2006). SMEs may actively reduce the risk associated with internationalisation by selecting suitable resource strategies (Sasi & Arenius, 2012). For instance, firms can reduce the size of potential losses by relying on entry modes that require low resource commitments, such as exporting, licensing or joint ventures (Oviatt et al., 2004). Arenius, Sasi and Gabrielsson (2006) argued that the Internet can also be used as a resource-conserving strategy by SMEs seeking to increase their involvement in foreign markets, and thus can have a significant impact on the amount of risk accompanying internationalisation.

In sum, the relevant literature suggests that the risks associated with internationalisation are correlated with uncertainty and commitment, which is why the risks associated with internationalisation can be mitigated by reducing uncertainty through learning and information search, or reducing vulnerability by lowering the amount of resources commitment to foreign markets in terms of quantity and irreversibility.

6.2.2 THE INTERNET AND THE INTERNATIONALISATION OF SMES

The Internet is a dynamic *'global techno-social system, based on a global, decentralized technological structure consisting of networked computer networks that store objectified human knowledge*' (Fuchs, 2008, p. 122) and may be considered an embodiment of human knowledge. The Internet may even broaden the scope of knowledge to which people have access, by acting as a transactive memory partner (Fisher, Goddu, & Keil, 2015; Ward, 2013). Arguably, the opportunities offered by recent advances in information and communication technologies (ICTs) are reshaping international business (Cavusgil & Knight, 2015). Mostafa, Wheeler and Jones (2005, p. 292) even refer to the advancement of the Internet as *'the most important innovation in recent years for SME exporters'*. Consequently, an increasing number of studies are now starting to explore the importance of the Internet for firms' international growth and expansion.

In the context of internationalisation, the Internet has been found to enable SMEs to overcome barriers that hinder SMEs' ability to initiate, develop or sustain business operations in foreign markets. For instance, empirical evidence suggests that effective use of the Internet may reduce the constraining effects of 'liability of foreignness' and resource-scarcity (Arenius et al., 2006; Sasi & Arenius, 2012) and be a major determinant of rapid internationalisation (Arenius et al., 2006), by increasing international exposure and reducing information asymmetries (Plakoyiannaki et al., 2014). Some even go so far as describing the Internet, and the firm's ability to take advantage of the opportunities afforded by the Internet, as a necessary precondition for internationalisation (Etemad, Wilkinson, & Dana, 2010). By contrast, others have questioned the Internet's effectiveness in facilitating SME internationalisation (Petersen et al., 2002), arguing that relying too much on the Internet as a means for supporting or conducting international business activities can have negative consequences for the firm (Reuber & Fischer, 2011), by having firms diversify their international activities too much (Petersen et al., 2002) or creating a 'virtuality trap' (N. Sinkovics et al., 2013; Yamin & Sinkovics, 2006). Hence, the impact of the Internet on firm internationalisation is complex and by no means self-evident.

The Internet has very diverse applications and can be used across the entire value chain (Yamin & Sinkovics, 2006). Broadly speaking, the Internet provides SMEs with an information-intensive environment and may be used for disseminating, acquiring and sharing information (Prashantham, 2005). First, the Internet has created an information-intensive environment that represents the embodiment of human knowledge and provides a useful medium for SMEs to obtain information about relevant foreign market opportunities (Etemad et al., 2010; T. Nguyen & Barrett, 2006). The Internet may provide SMEs with a significant tool for knowledge and resource building, thereby enabling them to overcome internationalisation barriers more rapidly than before (Kollmann & Christofor, 2014). The knowledge-creating potential of the Internet is further emphasised by Petersen et al. (2003), who argue, *'the Internet may reverse the conventional role of knowledge as a limiting, slowing factor in firms' internationalisation process to that of being a catalyst'*. Yet, despite the potential of the Internet as a source for acquiring the knowledge needed to internationalise, little research has explored its potential for internationalising firms (T. Nguyen & Barrett, 2006).

The Internet may also be used as a marketing channel to display information about the organisation and its products (Brock & Zhou, 2005). Using the Internet as a marketing channel may allow SMEs to reduce costs and enhance reach (Hamill, 1997; Harrison-Walker, 2002). Kotha et al. (2001, p. 776) even suggests that *'in principle, an Internet firm gains immediate access to international customers by virtue of launching a website'*. For instance, establishing an online presence may allow firms to reach customers that were otherwise inaccessible due to the temporal and spatial limitations of existing distribution channels (Sheth & Sharma, 2005). This, in turn, may lead to an increased number of unsolicited orders from abroad, due to an expansion of the firm's opportunity horizon (Berry & Brock, 2004). As a consequence, firms are pulled into foreign markets, because of their greater visibility to international customers, who are using the Internet to search for products and services (Petersen & Welch, 2003). In other words, using the Internet as a platform for marketing may directly result in international growth (Morgan-Thomas & Bridgewater, 2004).

Recently, studies have started to explore whether and how international entrepreneurs use the Internet to develop and harness virtually embedded ties (Reuber & Fischer, 2011). Studies are now starting to explore how individuals can use the Internet, including social network sites, as a means for social capital building (Ellison, Steinfeld, & Lampe, 2007; Ellison et al., 2011; Papacharissi & Mendelson, 2008). The Internet, with its potential for interactivity, provides firms with opportunities to develop and maintain network ties (Prashantham & Young, 2004) and build social capital (Sigfusson & Chetty, 2013). This has given rise to the emergence of a new form of embeddedness – 'virtually embedded ties' – which refers to network attachments that are *'initiated and maintained through electronic technologies and that provide distinctive solutions to the same problems with exchange relationships that are addressed by socially embedded ties'* (Fowler, Lawrence, & Morse, 2004, p. 648). These internet-assisted network attachments are likely to differ qualitatively from socially embedded ties and to be much more functional (Etemad et al., 2010). In particular, social networking sites have attracted the attention of academics due to their affordability and reach. Some researchers argue that international entrepreneurs utilise the Internet to overcome 'liability of outsidership' (Johanson & Vahlne, 2009), by developing and maintaining relations with potential partners on the Internet to become insiders in relevant networks in foreign markets (Sigfusson & Chetty, 2013), whereas others have proposed that the Internet is not useful before the initial relationship has been established (Moen, Madsen, & Aspelund, 2008). Thus, SMEs may acquire critical resources, such as knowledge, that are needed to internationalise, through online social capital formation (Sigfusson & Chetty, 2013). Researchers have also recognised that the Internet may provide an important tool in developing and maintaining relations between geographically diverse actors. Thus, the Internet may increase the range and diversity of network attachments.

6.3 METHODOLOGY

6.3.1 RESEARCH DESIGN

The main objective of this study was to examine how SMEs use the Internet as a means for reducing risk, when seeking to expand abroad. In addressing this objective, a case study approach was adopted because of its merits when dealing with *how* questions (Ghauri, 2004). Additionally, given that the academic literature on Internet-enabled internationalisation is limited and at a formative stage (Glavas & Mathews, 2014; Reuber & Fischer, 2011), a case study design was deemed appropriate (Eisenhardt, 1989).

The selection of cases is an important aspect of the case study design as the selection of cases defines the set of entities from which the research sample is to be drawn (Eisenhardt, 1989; Flyvbjerg, 2006). Furthermore, scholars working within the traditions of qualitative research often base their work on a relatively small number of cases, which is why it is critical that these cases are selected based on analytic and thoughtful reasons (Rapley, 2012). The objective when selecting cases was to select 'information rich' cases in relation to the specific purpose of the study (Ghauri & Grønhaug, 2010), which is why cases were selected for theoretical rather than statistical reasons (Flyvbjerg, 2006). Criterion sampling was used to identify and select cases that fulfilled predetermined criteria (Sandelowski, 1995). To be considered eligible for this study, cases had to meet two predetermined criteria. First, cases had to be classified as SMEs. In line with previous studies, the criterion used for defining SMEs was number of employees, as a proxy for firm size (McAuley, 2010). The standard EU classification was followed, where SMEs are defined as firms with fewer than 250 employees. This is also the most frequently definition across OECD countries (OECD, 2005) and is widely used in the literature (Agndal et al., 2008; Galkina & Chetty, 2015; Hilmersson, 2014; Moen et al., 2015; Pinho & Martins, 2010). Second, cases had to be involved in international operations, that is, with exports or subsidiaries abroad. To identify eligible cases, a database containing information on all registered companies in Denmark, including facts regarding ownership, turnover, balance sheets and size, was used. Given that the majority of companies in Denmark are classified as SMEs and given that Denmark is a small open economy, this screening procedure generated a large number of candidates. To select cases from this list of eligible cases, randomly selected companies were contacted by telephone and asked if they were willing to take part in the study. In addition, it was double-checked that the cases fulfilled the predetermined criteria. In total 10 cases were selected. Background information on each of the case study firms, including details on firm age, size, products, export experience and ration, and top export markets, is presented in

Table 18: Overview of case companies

Case	Year of Establishment	No. of employees	First Export	Global orientation	Products
AirCo	1991	70	2004	Regional	Ventilation units
BlueCo	2003	16	2004	Global	Business intelligence solutions
AccesCo	2003	12	2009	Regional	Clothing and jewellery
MeatCo	2001	40	2001	Regional	Food products for industrial market
ShareCo	2003	15		Global	E-learning software
WindCo	2004	20-25	1992	Global	Software for project design and management
LeviCo	1987	24	1988	Regional	Clothing
MariCo	1983	42	1984	Regional	Clothing
MobileCo	1993	158	1993	Global	Advanced wireless solutions
SourceCo	1999	25	2003	Global	Software for e-sourcing

6.3.2 DATA COLLECTION

Semi-structured interviews were used as the primary method of data collection, which is why the actual interview was conducted based on an interview guide (Bryman & Bell, 2015). The interview guide was organised into five parts. The first part captured information regarding the company background, such as when the company was founded, the company's ownership, and current size in terms of employees and turnover. This information was supplemented with information from annual reports, company brochures and corporate websites. The second part specifically aimed at capturing information regarding the internationalisation patterns of the company, such as when the company first started to internationalise, how the internationalisation process developed over time and the percentage of revenue coming from overseas markets. The fourth part captured information about the company's decision-making processes with respect to internationalisation. The final, and fifth, part was focused on capturing information about the role of the Internet in the internationalisation of the firm. During the interviews, the decision-makers were asked questions regarding their experiences with using the Internet for supporting or conducting international business activities when increasing their involvement in foreign markets as well as their assessment of the impact of the Internet on SME internationalisation.

The reason for this choice was that interviewing is appropriate when the researcher wants to acquire knowledge concerning people's lives, opinions, attitudes and experiences (Tanggaard & Brinkmann, 2010). Furthermore, interviewing is arguably one of the only ways to obtain information from key informants in SMEs (Carson, 1995). Finally, the semi-structured interview technique provided a needed focus for the interview. Without this focus, there is a risk of becoming overwhelmed by the staggering amount of data, and, as a result, end up describing nothing (Dubois & Gadde, 2002).

All interviews were conducted in the period from January 2013 to December 2013, and each interview lasted about 1,5 to 2 hours. The interviewees consisted of key-decision makers in small-to-medium sized internationalising firms, including Chief Executive Officers, Chief Commercial Officers, and Export Managers. In order to facilitate the data analysis, all interviews were tape-recorded and the entire interviews were later transcribed.

6.3.3 DATA ANALYSIS

The aim of the analysis was to identify the interpretations that participating decision-makers made about the Internet and its role in firm internationalisation. This involved a recursive process, involving data reduction, data displaying, and conclusion drawing/verification (Miles et al., 2014). The transformation of unstructured data into findings was informed by thematic analysis, which is a common methods of qualitative analysis used to code and identify basic themes within the data (Guest et al., 2012).

As a first step in data analysis, each transcript was read and statements or actions that reflects decision-maker's assumptions, knowledge, or expectations related to the role of the Internet and its implications for firm internationalisation were highlighted. The purpose of this process was to increase familiarity with the data, in order to gain a more holistic understanding of it, before starting to condense the data (Braun & Clarke, 2006). Following this familiarisation process, highlighted data was coded, by condensing and assigning a short phrase that '*symbolically assigns a summative, salient, essence-capturing, and/or evocative attribute for a portion of* *language-based or visual data*' (Saldana, 2013, p. 3). When coding the data, attention was paid to applying codes that reflect the respondents' positive or negative evaluations of the role of the Internet and their causal beliefs about how the Internet has influenced firm internationalisation. After this process produced the initial list of generated codes, focused coding was used to condense the vast array of initial codes based on thematic or conceptual similarity (Braun & Clarke, 2006). The goal was to abbreviate the list of codes, by searching for the most salient and frequent codes (Charmaz, 2006). During this process, special attention was paid to looking for repetitions, indigenous typologies or categories, similarities and differences, and linguistic connectors (Ryan & Bernard, 2003).

In the cross-case analysis, the focus was on examining whether the managerial interpretations related to the functionality and impacts of the Internet on SME internationalisation were different across cases (Eisenhardt, 1989). This process was facilitated by running matrix queries, which allowed patterns and interrelationships between codes to emerge. For instance, matrix queries were used to explore how different dimensions (e.g., firm size, firm age, international experience and export ratio) influenced decision-makers' experience of the role and impact of the Internet on firm internationalisation.

6.4 EMPIRICAL FINDINGS

The purpose of this study was to investigate the role of the Internet as a risk-reducing mechanism in the internationalisation of SMEs. The theoretical background suggested that the risk associated with internationalisation was a result of decision-makers' lack of knowledge as well as the resources committed to internationalisation. The following section examines how the Internet influences the amount of risk associated with internationalisation by examining its impact on uncertainty and market commitment.

6.4.1 IMPACT OF THE INTERNET ON UNCERTAINTY

As previously mentioned, uncertainty results from a knowledge gap, that is, a disparity between the knowledge needed to successfully increase involvement and operate in foreign markets and the knowledge currently possessed by the firm. Thus, increasing the amount of information available to a decision-maker reduces uncertainty. This study's findings illustrate how the Internet, as a global techno-social system storing objectified human knowledge, has enabled many SMEs to reduce the levels of uncertainty associated with international business by providing access to a number of information sources to support decision-making. This was noted by the CEO of MobileCO, a globally oriented company developing and producing advanced wireless solutions, who emphasised the importance of the Internet as a source of international knowledge and as a means for closing knowledge gaps:

> *'We acquire most of our knowledge from the Internet one way or the other. The amount of information available there is incredible. Of course we also receive information by talking to our customers, but typically they give a hint and they you investigate further'.*

The interviews revealed that a significant number of SMEs used the Internet as a tool for seeking and acquiring objective knowledge. Firms were using the Internet for seeking and acquiring market knowledge, including knowledge of foreign market conditions and opportunities as well as knowledge about the behaviours, resources and capabilities of suppliers, competitors and local clients. There was a broad consensus that the Internet provided quick and easy access to information and knowledge that was previously inaccessible or too expansive to afford. Thus, it can be argued that the Internet has reduced the risk associated with internationalisation, by providing firms with a knowledge-building tool and reducing the uncertainties accompanying internationalisation.

One important function for which the Internet was being used was for *identifying and evaluating international opportunities*. The Internet was seen as offering new opportunities to conduct exchange with new customers and partners in foreign markets either through deliberate search or accidental discovery (i.e., serendipity). For instance, the Internet was used proactively to increase the range and diversity of network ties and build social capital, by identifying and connecting with potential partners and customers online. The Owner-Manager of BlueCO, a small company developing business intelligence solutions, noted the usefulness of the Internet as a tool for social capital building:

> *'We use the Internet proactively as a vehicle for identifying potential customers. When you have a limited customer segment, you know that they will have specific job titles and work in a specific category of companies. Then LinkedIn is very effective, as it allows you to quickly identify potential customers by filtering by job title and geography ... LinkedIn is also a good tool for developing and expanding your network.*

> *When I sell something to someone, there is a good chance that this person is connected to similar people in different companies and different countries. So this gives me an opportunity to discover new potential customers'.*

Thus, the Internet was actively used to tap into his existing network on LinkedIn and identify opportunities to bridge relationships and seek further opportunities abroad. In addition, the increased exposure made possible through the Internet was also found to lead to the accidental discovery of international opportunities, triggering serendipitous internationalisation. For instance, the Owner-Manager in BlueCO explained how the company was pulled into foreign markets early after being established, through their online presence:

> *'Actually, in the beginning, we did not have a plan to internationalise. In the beginning our internationalisation was based on our website. We created a corporate website and soon after we started receiving unsolicited inquiries from abroad'*

In addition, firms were using the Internet as a means for reducing competitive uncertainties, which are related to the unpredictability of the actions of existing and potential competitors (Sutcliffe & Zaheer, 1998). Arguably, the introduction and diffusion of the Internet greatly improved the SMEs' competitive scanning capacity, as the ability of firms to gain information about competitors was believed to have been increased because of the advancement of the Internet. A good example is AirCo, a company producing and selling ventilation units. The CEO noted:

> *'The Internet allows us to get a quick overview of the competitive situation ... Our capacity to quickly identify the competition that we face has been significantly strengthened with the introduction and diffusion of the Internet'*

Another example is LeviCo, a small company designing and selling women's clothing. Here, the Owner-Manager also emphasised the potential of the Internet as a resource for reducing competitive uncertainties:

> *'Our sales team is increasingly using the Internet to find competitors' information ... They can find everything on the Internet ... The Internet is a very good source for findings information about customers, competitors and so forth'.*

Hence, these findings indicate that the Internet has greatly improved SMEs' ability to understand the competitive arena. Others specifically used the Internet as a means for coping with uncertainties related to collectibles. Several informants commented on how they have used the Internet for credit assessments, in order to reduce the risks of doing business in other countries. For example, the Owner-Manager of a AccesCo, a small company designing women’s accessories, noted how the Internet was used for coping with credit uncertainties:

> *'We also use the Internet to quickly check existing and potential customer’s payment history and financial information. I use this homepage, where I can see business credit reports to get an overview of the company and its wellbeing'.*

Similarly, the CEO of MeatCo, a food manufacturer selling to the industrial market, also used online channels to safeguard against the risks associated with credit uncertainties: '*We have a subscription to Dun and Bradsteet, where we can check a company’s financial scores and payment history before we decide on the credit terms'*.

Thus, to conclude, the Internet was found to provide SMEs with considerable international market information that helped SMEs to reduce the uncertainties associated with internationalisation, which in turn lead to a reduction in their exposure to risk.

6.4.2 IMPACT OF THE INTERNET ON MARKET COMMITMENT

The amount of resources committed in foreign markets and their transferability arguably has a significant impact on the amount of risk accompanying internationalisation, as it determines the size of loss that a decision entails, if things go wrong. Based on this study's findings, it appears that the Internet holds the potential to reduce the amount of risk associated with doing business in foreign markets through reducing the costs incurred by SMEs seeking to expand abroad.

The key informants described how their firms' internationalisation costs were reduced, as the Internet provided them with a cost-effective way to enhance reach and build awareness compared to traditional communication methods. Almost without exception, the case SMEs were actively using the Internet for building awareness about the company and its products. There was a broad consensus among the decision-makers that the Internet afforded companies a cost-effective way to do this. The Internet was believed to reduce firms' global marketing costs, as building awareness about the company and its products through online marketing made it possible to reach foreign customers more cheaply. Hence, the Internet was found to be useful for removing or reducing some of the traditional internationalisation barriers, including communications costs. For instance, the CEO of a company producing fashion accessories described how using the Internet as a marketing channel has reduced resource-related barriers by providing the firm with a cost-effective marketing channel:

> *'Indeed the Internet has provided us with a number of opportunities for increasing our involvement in foreign markets. Today, our marketing budget is close to zero, because we do not have any advertisements in magazines. Instead we use our website and social media such as Facebook and Instagram ... If we did not have these new opportunities for marketing our products, we would be ruined. So it is really positive'.*

This finding was also supported by the Owner-Manager of SailCo, a family-owned international brand selling menswear and womenswear:

> *'Of course, you can easily use a large amount of resources when expanding into foreign markets ... but in relation to resources, the Internet has changed a lot. Now we are launching a new platform in Italy and the Middle East, which we can do for a small amount of money ... There are a lot of things you can do, which are costing us nothing'*

In addition to allowing firms to promote themselves globally at minimal costs, the cost of launching every additional international website is also reduced when using the Internet actively as a vehicle for conducting online business in foreign markets. For instance, the Owner-Manager of SailCo noted how it only required minimal localisation efforts, such as translating the content to create an online presence in foreign markets, once the firm had already invested in a corporate website or e-commerce platform:

> *'Today, we have our own e-commerce platform, which we can duplicate very easily. We only have one guy working on this. It is costing us nothing compared to what we can actually do, so it is a very important area for our company'.*

Hence, the Internet was proactively used by the majority of companies to reduce the costs associated with marketing activities; online marketing allowed firms to promote themselves globally at minimal costs.

In addition, the Internet was found to increase transaction efficiency, by reducing the search costs associated with obtaining information on potential foreign customers and partners. A decision-maker at ShareCo noted how the Internet had improved the opportunities for identifying as well as evaluating potential foreign customers and partners:

> *'Well you can, it is easier to qualify, it is easier to research people on the LinkedIn, Google, Twitter, find out who they are and what is their company all about, what are their references'.*

Hence, through the Internet, companies experienced better opportunities for identifying and evaluating potential foreign customers and partners, such as export intermediaries and suppliers. Hence, in addition to reducing search costs, the Internet also reduced the costs of adverse selection. The Internet both reduced the costs associated with identifying international opportunities and helped SMEs reduce the costs directly associated with spatial distance. For instance, WindCo utilised the Internet as a distribution channel, meaning that actual product fulfilment took place online. The CEO of WindCo explained how the ability to use the Internet as a distribution channel had allowed the company to reduce its distribution costs:

> *'It has become less expensive to distribute our products compared to previously, where we had to send our products physically by mail. In addition, when you have customers in foreign markets, this can easily become expensive. We also needed to send every software update physically. It also took a lot of time to pack all the packages. So from that perspective, it is much easier and cheaper today, where you just have to push a button'.*

To conclude, SMEs were able to reduce international operating costs, thus reducing the amount of resources committed to foreign markets and the risk accompanying internationalisation. The Internet was used as a resource-conserving strategy, providing a low-cost gateway into foreign markets; it consequently had a significant impact on amount of risk associated with doing business in foreign markets.

6.5 DISCUSSION AND CONCLUSIONS

In the following section, the study will conclude in a sequence of steps. First, the results of the study are assessed and discussed in relation to the findings of previous studies. Second, the managerial and theoretical implications are highlighted. Third, the limitations of the study are discussed and promising avenues for further studies suggested.

6.5.1 DISCUSSION OF THE FINDINGS

An increasing number of studies are starting to emphasise the importance of the Internet as a means for conducting or supporting international business activities. Building upon internationalisation process theory, this paper explored how SMEs use the Internet to reduce the risk associated with doing business in foreign markets, which is generally acknowledged as a constraining factor in the internationalisation process of firms (Figueira-de-Lemos et al., 2011; Liesch et al., 2011). To answer this question, a multiple case study strategy was used, involving 10 semi-structured interviews with key informants. First, this study examined how the Internet was used to close knowledge gaps and reduce the uncertainties accompanying internationalisation. Second, it examined how the Internet influenced market commitment, including SMEs internationalisation costs. Such exploration is important in order to understand the true impact of the Internet on the internationalisation of SMEs, as the academic literature on Internet-enabled internationalisation is limited and at a formative stage (Etemad et al., 2010; Glavas & Mathews, 2014; Reuber & Fischer, 2011; N. Sinkovics et al., 2013). In addition, little or no research has explicitly examined how SMEs can use the Internet as a means to deal with their concerns about risk, enabling them to commit to internationalisation and increase their involvement in foreign markets.

The results of the study show that the Internet was often used by these SMEs as an intended vehicle for internationalisation. Specifically, the Internet was seen as enhancing the scope and speed of internationalisation, by increasing decision-makers' exposure to foreign market knowledge, either through *accidental discovery* or *deliberate search*. Hence, the Internet was found to reduce the knowledge gaps and uncertainties accompanying internationalisation. For instance, the Internet was found to increase the availability of knowledge about foreign markets and opportunities as well as knowledge about local cultures. The Internet was also found to improve SMEs' competitive scanning capacity and thereby reduce competitive uncertainties related to the unpredictability of the actions of existing and potential competitors. In addition, the Internet was found to have a central role in reducing the costs of doing business in foreign markets. For instance, the Internet was found to reduce search costs significantly, by providing companies with better opportunities for identifying and evaluating potential foreign customers and partners, such as export intermediaries and suppliers. Hence, the Internet was considered an important tool for identifying and evaluating international opportunities. In addition, the Internet was found to reduce the costs related to marketing activities, as online marketing allowed firms to promote themselves globally at minimal costs. The results of this exploratory study therefore highlight the potential of the Internet as a coping mechanism for reducing the risks accompanying internationalisation, enabling SMEs to commit to internationalisation and increase involvement in foreign markets.

In general, the results of this study seems to support and verify the growing number of empirical studies highlighting the importance of the Internet as a means for conducting and supporting activities related to firms' increasing involvement in foreign markets. For instance, the results of this study appears to support recent empirical research documenting how different export barriers may be lessened by the use of the Internet, making accelerated internationalisation feasible for even small firms (Loane & Bell, 2006; Plakoyiannaki et al., 2014; N. Sinkovics et al., 2013). As shown in this study, the Internet holds the potential to reduce the amount of risk accompanying internationalisation, which has been identified as a constraining factor in the internationalisation process of firms (Figueira-de-Lemos et al., 2011; Liesch et al., 2011). This confirms the facilitating influence of the Internet on the international expansion of SMEs and its effect on both the process and path of internationalisation (S. Mathews & Healy, 2008; Nieto & Fernández, 2005).

Knowledge has always been seen as a crucial element in the internationalisation process (Forsgren, 2002; Mejri & Umemoto, 2010; Petersen et al., 2003; Yli-Renko, Autio, & Sapienza, 2001) and an important source of risk and uncertainty (Figueira-de-Lemos et al., 2011; Hilmersson & Jansson, 2012). Lack of knowledge about foreign markets has consistently been identified as one of the most significant barriers hindering SMEs' ability to identify and capture opportunities across national borders (Leonidou, 2004). In line with this study, previous studies have also found the Internet to be an important means for decision-makers to seek information on countries, markets, competitors, institutions and customers, in the face of perceived knowledge gaps (Berry & Brock, 2004; Bianchi & Mathews, 2015; S. Mathews et al., 2012; T. Nguyen & Barrett, 2006; T. D. Nguyen & Barrett, 2006). The results of this study also revealed how SMEs took advantage of the information rich environment provided by the Internet to reduce a number of uncertainties accompanying internationalisation. Thus, the findings also support growing empirical evidence demonstrating how SMEs use a mixture of means for acquiring knowledge, including external search (Casillas et al., 2015; Fernhaber et al., 2009; Fletcher & Harris, 2012).

Furthermore, the results of this study also demonstrate the potential of the Internet as a means for mitigating the risks associated with internationalisation by reducing the costs of doing business in foreign markets. This result is consistent with previous studies showing that the Internet can be used as a resource-conserving strategy (Arenius et al., 2006; Sasi & Arenius, 2012), allowing even firms with limited resources to become international ventures at an early stage of their development (Luo, Zhao, & Du, 2005). This finding supports the argument that the Internet can provide a low-cost gateway into foreign markets (Gregory, Karavdic, & Zou, 2007; Moen, Gavlen, & Endresen, 2004; Sigfusson & Chetty, 2013) and strengthen the firm's internal resource base, by freeing up resources for their international business (Berry & Brock, 2004).

6.5.2 MANAGERIAL IMPLICATIONS

This study contributes new knowledge to the emerging literature on Internet-enabled internationalisation, by exploring how the Internet affects the level of risk associated with doing business in foreign markets. In addition, this study contributes to the literature by examining how SMEs cope with the risk to which the firm is exposed when doing business in foreign markets.

From a managerial perspective, this study provides insight into how SMEs can use the Internet to reduce the risks faced when doing business in foreign markets. The Internet enabled SMEs to reduce the uncertainty experienced when engaged in international business, by providing access to a number of resources to support decision-making. The SMEs examined in this study relied heavily on the Internet as a means to acquire knowledge about customers, competitors and market conditions in particular markets, through both deliberate search and accidental discovery. In addition, the results of this study show that SMEs may reduce the risk associated with internationalisation by using the Internet to reduce the costs of doing business in foreign markets, including search costs, marketing costs and distribution costs. Hence, SMEs should recognise the importance of integrating the Internet into the firm's internationalisation strategy and start using the Internet as a means for conducting or supporting international business activities. Doing so may help SMEs reduce the dangers faced in terms of limitations, restrictions, or even losses from engaging in international business.

6.5.3 LIMITATIONS AND FUTURE RESEARCH

While a number of precautions have been taken during the different phases of this study to increase the trustworthiness of the findings, the results are not without limitations. While these limitations potentially impact the quality of the findings and their ability to answer the research question, they also represent opportunities for future research.

First, due to the qualitative and exploratory nature of the study and the fact that only a limited number of SMEs were included in the study, the statistical generalisability of the findings is limited, as this requires a large, random sample (Tsang, 2014). Consequently, further research is necessary to test the results of this study with a larger sample. In addition, it may be necessary to replicate this study in various national contexts and industry sectors. In addition, this approach may also contribute by highlighting contextual factors, which may help explain under what conditions the Internet can be used as a means for reducing risk.

The results of this study also open the door to other promising and interesting research avenues. The results of this study point to the need for further studies that explores the relationships between using the Internet as a means for conducting international business activities, uncertainty, market commitment and the amount of risk accompanying internationalisation. First, while the findings show how the Internet has the potential to reduce the uncertainty associated with doing business in foreign markets, increased information availability may potentially also lead to overconfidence (Petersen et al., 2003). Overconfidence is a cognitive bias which involves the failure to recognise the limits of one’s knowledge and may result in inaccurate perceptions of personal abilities and lower quality decisions (Busenitz & Barney, 1997; Shepherd, Williams, & Patzelt, 2015). Studies within the field of psychology are now starting to show how the Internet, and attendant increased information availability, influence cognition and produce a sense of false confidence (Fisher et al., 2015; Ward, 2013). Thus, one promising avenue for future research is to examine how using the Internet for closing knowledge gaps influences managerial cognition, including overconfidence. Second, while this study's findings show that the Internet is considered an effective tool for identifying and evaluating international opportunities, future research may look specifically at how the Internet has provided new and enhanced ways to create and capture international opportunities. Third, future studies should examine the outcomes of using the Internet as a means for dealing with risks when doing business in foreign markets. For instance, future studies could examine its impact on performance, as reliance on the Internet arguably may result in overconfidence and rash internationalisation (Petersen et al., 2002; Reuber & Fischer, 2011). Hence, a positive impact on firm performance cannot be taken for granted. In addition, future studies may examine the impact on internationalisation patterns (i.e., scope, speed and extent), since risk has been considered to be a major barrier to foreign market expansion (Liesch et al., 2011).

In summary, while this study contributes to the emerging literature on Internet-enabled internationalisation by examining the specific ways in which the Internet affects internationalisation through reducing the risks accompanying involvement in foreign markets, there remain several promising and interesting avenues for future research on this topic. By exploring these avenues, the complex relationship between Internet and internationalisation will continue to be better understood.

7 CONCLUSIONS AND DIRECTIONS FOR FUTURE RESEARCH

7.1 INTRODUCTION

The following chapter concludes this thesis by summarising and synthesising the main findings of the study in relation to the research questions introduced in the first chapter. The summary and synthesis of the main findings is followed by reflections on the main contributions of the study and its implication for research, practice and policy-making. Next, the main limitations of the study that must be taken into consideration when interpreting the findings are discussed. Against this background, the chapter concludes by identifying and highlighting promising avenues for future research, which are believed to have the potential to contribute to our understanding of risk in the internationalisation of SMEs.

7.2 SUMMARY OF MAIN FINDINGS

The overall purpose of the thesis was to explore SME decision-makers perceptions of the risks associated with doing business in foreign markets and discover how and to what extent they cope with their concerns about these risks. The systematic review of existing literature on risk in relation to firm internationalisation, presented in Chapter 2, showed that while risk has received significant attention in the internationalisation literature, surprisingly few studies to date have explored SME decision-makers perceptions of the risks associated with doing business in foreign markets. Thus, it is unclear to what extent SME decision-makers perceive internationalisation as a risky endeavour, if at all. In addition, little is known about the factors influencing SME decision-makers perceptions of the risks to which the firm is exposed when doing business in foreign markets. The literature review also highlighted that more research is needed in relation to how SMEs engage and cope with the risks to which they are exposed when engaged in international business, as MNCs has received the bulk of attention despite the increasing number of SMEs engaged in international business. While risk and risk management is widely recognised, emphasised and researched in the international business literature on MNCs (Bassino et al., 2015; Hain, 2011; Mascarenhas, 1982) these findings are not easily transferred to the context of SMEs (Falkner & Hiebl, 2015; Fernhaber & McDougall-Covin, 2014). SMEs are likely to engage and cope with risks differently from MNCs, as they often lack the resources needed to support risk-management activities (Brustbauer, 2014). Against this background, the study was motivated by two research questions:

1. How and to what extent do SME decision-makers involved in international business activities perceive risk when doing business in foreign markets?
2. How and to what extent can SME decision-makers cope with the perceived risks associated with doing business in foreign markets?

The purpose of research paper II, presented in Chapter 4, was to examine SME decision-makers perceptions of the risks associated with doing business in foreign markets. The results of this study showed that decision-makers in internationalising SMEs do not perceive the risks associated with doing business in foreign markets in the same way. A notable number of decision-makers did not consider risk to be a major concern when doing business in foreign markets. While scholars and other experts in general agree that firms actively involved in foreign markets face a number of risks (Alon & Herbert, 2009; Hain, 2011; Jiménez et al., 2014), some of which are unique to firms operating across national borders (Ghoshal, 1987; Luo, 2009), the data presented in this thesis suggests that many of these were not recognised by the decision-makers involved in international business. Differences in SME decision-makers perceptions of the risk associated with doing business in foreign markets were found to be attributed to the psychological and cognitive characteristics of the decision-makers and their experiences. Findings indicated that SME decision-makers' risk perceptions were influenced by a number of psychological and cognitive factors, including psychic distance, locus of control and self-efficacy. These psychological and cognitive characteristics were found to act as a filter through which SME decision-makers assess and make sense of the risks faced when engaged in international business activities. In addition, both direct and indirect experience was found to have an impact on SME decision-makers' subjective assessment of the risks associated with internationalization, suggesting that risk perceptions are, to some extent, based on previous knowledge acquired through direct or indirect learning. SME decision-makers familiar with the possibility of experiencing disappointing outcomes or even financial losses from engaging in international business were found to be more likely to express a higher level of concern about the risks associated with international expansion. In contrast, decision-makers without experience of negative or unexpected outcomes from engaging in international business were more likely to lack information or awareness about the risk associated with doing business in foreign markets and therefore frame internationalisation and international opportunities more positively.

The purpose of research paper III, presented in Chapter 5, was to examine how and to what extent SME decision-makers cope with the risks associated with doing business in foreign markets. The results of the study demonstrated how many SMEs coped with their concerns about risk by actively trying to reduce and modify the amount of risk inherent in international business activities. This was done either by actively trying to reduce the degree of risk involved in capturing a given international opportunity (i.e., risk mitigation) or by abstaining from capturing a given international opportunity (i.e., risk avoidance). Thus, while some SMEs were actively trying to reduce the amount of risk inherent in international opportunities, others treat risk in a passive manner and acted according to their willingness to take risk without trying to modify the risks inherent in the international opportunities. Furthermore, this study identified a number of important antecedents explaining why some SMEs engaged actively with the risks by taking precautionary actions to safeguard against identified risks, while others did not. First, they indicate that SMEs are less likely to actively attempt to reduce or eliminate perceived risk when key decision-makers perceive little or no risk. Second, SMEs were found to be more likely to actively mitigate the risks associated with internationalisation if SME decision-makers believed that the chances of loss from perceived risks could be reduced or avoided altogether. In addition, the costs of applying risk-defusing operators were also found to influence the risk coping behaviour of SMEs. Third, SMEs were found to be more likely to actively minimise the risk of internationalisation if they had previously experienced negative outcomes from engaging in international business or know of others who have. Thus SMEs capacity to assess and manage risk was partly explained by previous experience. SME decision-makers were more motivated to actively mitigate risk using different coping mechanisms when familiar with the probability of disappointing outcomes or even financial losses from engaging in international business, either through personal or vicarious experience. In contrast, SME decision-makers without previous experience of the risk implications of internationalisation seemed less motivated to actively employ risk-defusing operators in an attempt to reduce risk.

In research paper IV, presented in Chapter 6, the goal was to explore more specifically how the Internet was used by SMEs to deal with the risks associated with internationalization. First, the study examined how the Internet was used to close perceived knowledge gaps and reduce the uncertainties accompanying internationalisation. Second, the study examined how the Internet influenced market commitment, including SMEs internationalisation costs. The results of this study showed how the Internet was often used by SMEs as an intended vehicle for internationalisation. Specifically, the Internet was perceived as enhancing the scope and speed of internationalisation, by increasing decision-makers' exposure to foreign market knowledge, either through accidental discovery or deliberate search. Hence, the Internet was found to reduce knowledge gaps and uncertainties accompanying internationalisation. In addition, the Internet was found to have a central role in reducing the costs of doing business in foreign markets. For instance, the Internet was found to reduce the search costs significantly, by providing SMEs with better opportunities for identifying and evaluating international opportunities. In addition, the Internet was found to reduce costs related to international marketing activities, as online marketing was believed to allow firms to market themselves globally at minimal costs. The results of this exploratory study therefore highlight the potential of the Internet as a coping mechanism for reducing the risks accompanying internationalisation, enabling SMEs to commit to internationalisation and increase their involvement in foreign markets. An overview of the main findings is presented below in Table 19

Table 19: Summary of main findings

Paper No.	Title	Purpose	Main Findings
1	Risk and Internationalization: A Review and Research Agenda	To systematically review existing literature, identify significant gaps, and suggest promising	• Existing research cluster around three themes: (1) the relationship between risk and internationalization, (2) risk and internationalization decisions, and (3) Risk accommodation in the internationalization process • Future research should focus on decision-makers *perception* of risk, and its influence on strategic decision-making and the strategies used for coping with risk in SMEs
2	Understanding Managerial Risk Perceptions and its Impact on Internationalization Decisions	To examine how decision-makers in internationalizing SMEs make sense of the risk that adheres to doing business in foreign markets	• Decision-makers diverge in terms of their subjective judgment and appraisal of risk associated with internationalization • Managerial perception of risk associated with internationalization is influenced by a mix of psycho-cognitive and situational characteristics
3	Coping with Risk in the Internationalization Process of SMEs	To examine how the risk of internationalization is managed in internationalizing SMEs	• SMEs follow different strategies of coping with risk in the internationalization process • The methods used for coping with risk depends on decision-makers subjective assessment of the risks associated with international activities and the controllability of these risks
4	Internationalization and Risk: The Role of the Internet	To examine the role of the Internet as a risk-reducing mechanism in the internationalization process of SMEs	• The Internet holds the potential of reducing the risk that adheres to doing business in foreign markets • The Internet can reduce uncertainty, by increasing the amount of international market information available to firms as well as reduce a number of costs associated with internationalization

7.3 CONTRIBUTIONS AND IMPLICATIONS

In this section, the contributions of this thesis to knowledge will be discussed, followed by a discussion of the implications of the study for research, practice and policy-making. According to Bello and Kostova (2012) it is important to explicitly state the contributions and implications of a study, as this helps communicate the value of the study and answer questions about the novelty and importance of the study.

7.3.1 CONTRIBUTION TO KNOWLEDGE

While the internationalisation of SMEs has received increasing attention as a topic of academic inquiry, many aspects of the phenomenon still remain under-researched (Child & Hsieh, 2014; Jones, Coviello, & Tang, 2011; Rialp, Rialp, & Knight, 2015). The main contribution of this thesis lies in addressing significant gaps in the internationalisation literature. More specifically, the study contributes to existing literature by advancing knowledge and providing insight into how SME decision-makers perceive and cope with the risks inherent in international activities. This is an important contribution, considering how previous research empirically show how decision-makers perception of risk influence their strategic decisions, including those on internationalisation (Acedo & Florin, 2006; Acedo & Jones, 2007; Cavusgil & Naor, 1987; Kiss et al., 2013). In addition, SMEs ability to expand their business abroad, despite the risks inherent in internationalisation, appears to be partly explained by their ability to identify and employ risk coping mechanisms (Figueira-de-Lemos et al., 2011; Liesch et al., 2011). Thus, understanding how SME decision-makers perceive and cope with risk can help explain why some SMEs expand their business abroad while others do not and the variance in internationalisation patterns observed among SMEs.

First, the thesis makes an important contribution to existing literature by comprehensively reviewing and synthesizing existing internationalisation literature on risk. The thesis provides an overview of existing research on risk in the internationalisation literature and contributes by identifying significant gaps, and suggesting promising avenues for future research in order to develop the understanding of risk in the internationalisation process. While risk is generally considered an important construct in international business and fundamental to the process of internationalisation, research on risk and internationalisation has not previously been systematically reviewed. The thesis can therefore help future development and conceptualisation of the research area, by extending and developing theory related to risk and internationalisation (Denyer & Tranfield, 2006; Torraco, 2005). In addition, the synthesis of existing literature reduces the possibility that previous studies will remain isolated, with their potential cumulative advantage for advancing knowledge in the field being neglected (Hoon, 2013). Thus, the thesis can act as a catalyst for future research.

Second, the study contributes to existing literature by focusing attention on the cognition of decision-makers, which is considered an important microfoundation for explaining firm-level internationalisation behaviour, strategies and performance (Maitland & Sammartino, 2015). By examining how SME decision-makers perceive the risks associated with doing business in foreign markets, the study makes important theoretical and empirical contributions to the internationalisation literature by answering calls for a richer understanding of how SME decision-makers perceive and form judgements about the risks faced when doing business in foreign markets (Acedo & Florin, 2006; Claver et al., 2008; Kraus et al., 2015; Liesch et al., 2011). Existing internationalisation literature has been criticised for not paying adequate attention to these cognitive processes (Zahra, Korri, & Yu, 2005), leaving the decision-makers underspecified in most internationalisation theories (Aharoni et al., 2011). In addition, the literature review revealed how the decision-makers' perceptions of risk have received surprisingly little attention, which is surprising considering that the risk perceptions of decision-makers have been found to shape decisions related to internationalization (Acedo & Florin, 2006; T. K. Das & Teng, 2001; Kiss et al., 2013). Specifically, the study contributes to our understanding about how and why SME decision-makers form judgements about the risks faced when engaged in international business by extending existing theories and adding additional factors, which are likely to shape SME decision-makers perceptions of risk. By adopting a qualitative research approach, the thesis moves beyond causal connections and theoretical relationships between decision-makers risk perception and internationalisation towards the theoretical mechanisms and underlying logic explaining *why* decision-makers perceive risks related to doing business in foreign markets, which is essential for understanding SME internationalization. While the thesis generally support previous studies and the argument that decision-maker's perception, including their perception of risk, can be partly explained in terms of their psychological and cognitive characteristics (Acedo & Florin, 2006; T. K. Das & Teng, 2001; Hambrick, 2007), the thesis extends existing theory by adding to the list of factors explaining SME decision-makers risk perception by showing how psychic distance, self-efficacy and locus of control contributes to their subjective assessment of risk inherent in internationalisation. As a result, our understanding of the ways in which SME decision-makers form judgement about the risks they face when doing business in foreign markets have been broadened by the thesis.

Third, the thesis contributes to the internationalisation literature by illustrating empirically how SMEs involved in international activities cope with the perceived risks associated with doing business in foreign markets. While risk accommodation has been described as a key task of decision-makers in firms engaged in international business nearly three decades ago (Ghoshal, 1987), surprisingly few studies focus on how firms engaged in international business might deal with the risks associated with doing business in foreign markets (Fernhaber & McDougall-Covin, 2014; Figueira-de-Lemos et al., 2011; Hilmersson et al., 2015). In particular, as illustrated by the literature review, presented in Chapter 2, very little is known about the ways in which SMEs deal with these risks, which is problematic given that SMEs are more constrained in their ability to cope with the risks accompanying internationalisation (Brustbauer, 2014; Child, Rodrigues, & Frynas, 2009; Falkner & Hiebl, 2015). Thus, this study makes an important contribution to existing body of knowledge by addressing a significant gap in the literature and extends existing literature beyond the context of MNEs, which has received the bulk of attention in the internationalisation literature (Gao, Sung, & Zhang, 2013).

Fourth, the study contributes methodologically to the literature on risk perceptions in the internationalisation literature by utilizing qualitative and perceptual data. The thesis does not contribute significantly to innovations in research design and methodologies, as the thesis more or less follow the prescriptions of well-established research methods. However, while qualitative research is now used more often within international business studies (Andriopoulos, 2013; Birkinshaw et al., 2011; Nummela & Welch, 2006; Rebecca Piekkari & Welch, 2006), the literature review presented in Chapter 3 reveals how surprisingly few studies on risk in the internationalisation literature adopts a qualitative research approach. Thus, the thesis contributes by applying well-established research methods within an area where they have rarely been used. By adopting a qualitative research approach and using in-depth interviews with SME decision-makers about their understandings and experiences with the risks inherent in internationalisation, it was possible to provide in-depth insights into the perceptions of decision-makers in relation to their subjective assessments of the risks inherent in internationalisation (Child et al., 2009) and their conceptions of risk (Bromiley et al., 2015). Thus, the thesis contributes by focusing on the 'lived experiences', that is, how the decision-maker's experience their world (Lupton, 1999).

7.3.2 IMPLICATIONS

In addition to the contributions to knowledge, the thesis also has a number of theoretical, managerial, and policy-making implications. First, the findings have a number of theoretical implications. The data presented in this thesis challenges the basic idea that SME decision-makers, who identify and capture opportunities across national borders, are less risk averse and willingly accept greater levels of risk. This assumption has guided several studies in which willingness to take risk is seen as a key in explaining international entrepreneurship. For example, Dimitratos and Plakoyiannaki (2003) highlight decision-makers' willingness to undertake significant and risky resource commitments in foreign markets as an important dimension of an international entrepreneurial culture or mindset, while others have described international expansion as risk-seeking behaviour (McDougall & Oviatt, 2000). However, when looking at the level of individual decision-maker perception, the findings of this study challenge this basic assumption. In fact, many decision-makers explicitly stated that they considered themselves to be risk averse. In other words, the findings of this study suggest that many decision-makers fail to recognise or deny the existence of risks accompanying internationalisation. Thus, while others may interpret capturing international opportunities and doing business in foreign markets as risk-seeking behaviour, those responsible for and involved in these activities may not share this view. This suggests that the actions of decision-makers when seeking to expand into foreign markets may be best described as a consequence of a lack of information and awareness about potential risks inherent in international business rather than a deliberate acceptance and recognition of risk.

In addition, the findings presented in this thesis suggest that most SME decision-makers search for and employ various coping mechanisms in order to reduce the likelihood or severity of potential loss from engaging in international business or completely eliminate their exposure to these risks. This suggests that future research on SME internationalization should expand their focus from the traits of the decision-makers, in terms of risk propensity and risk perception, to also focus on their capability to identify and employ various coping mechanisms and how SMEs can build the capability to cope with the risks associated with doing business in foreign markets. The findings therefore contend that future research should include risk accommodation as a variable in internationalisation research as this could help explain some of the heterogeneity observed in the internationalisation patterns of SMEs.

In addition to the theoretical implications, the findings have implications for decision-makers in internationalizing SMEs. First, decision-makers in internationalizing SMEs should be aware that their perceptions might be inaccurate when making sense of foreign markets, including the risks associated with doing business in these markets. The findings show that the majority of decision-makers were not concerned with many of the risks associated with doing business in foreign markets, which seemed to be related to the psychological and cognitive characteristics of the decision-maker. In addition, the study shows that being aware of risks related to international business, including potential inaccuracies, is a prerequisite for taking precautionary actions and safeguard against potential loss when doing business in foreign markets. This suggests that decision-makers in internationalizing SMEs should make some effort in order to identify, assess and monitor risk, as the ability of SMEs to manage these risks and safeguard against potential loss from engaging in international business is limited if their knowledge of the risks to which the firms is exposed when doing business in foreign markets is poor.

Second, when decision-makers detects a possibility that capturing an international opportunity or doing business in foreign markets can have a negative outcome, SMEs can attempt to reduce the risk using one or several risk coping mechanisms. For example, in order to reduce the risks associated with internationalization, SME decision-makers can take advantage of the opportunities afforded by the Internet Thus, rather than dealing with risk passively, decision-makers in internationalizing SMEs should instead focus on identifying relevant risk coping mechanisms in order to reduce the risks inherent in international opportunities. This is according to the thesis a more constructive way to deal with the risks inherent in internationalisation as passive risk avoidance constrains SMEs growth and their ability to initiate, develop and sustain business operations in foreign markets.

Third, the findings have implications for policy-making. First, the findings show that risk is an important constraint that hinders SMEs ability to initiate, develop and sustain business operations in foreign markets. In the empirical evidence, there were a number of examples of situations where the perceived risks associated with an international opportunity had prevented the decision-makers from capturing this opportunity. Thus, in order to support SME internationalisation, policy-making should increasingly focus on providing effective mechanisms for mitigating the risks associated with doing business in foreign markets. However, it is not enough to provide SMEs with means for mitigating risks, as the SMEs must be aware of the risks firms face when engaged in international business in order to take precautionary actions. Thus, policy-making should not only focus on providing SMEs with effective means for coping with relevant risks, but also provide information on the risks faced when doing business in foreign markets. For example, policy-makers can focus on providing SMEs professional discussion on all issues related to internationalization, including the risks associated with doing business in foreign markets leading to more accurate perceptions of the risks faced when doing business in foreign markets. In addition, this could help equip SMEs with the skills needed to effectively identify, evaluate and mitigate the risks associated with internationalization.

7.4 RESEARCH LIMITATIONS

All research, no matter how well-designed and executed, has limitations that must be considered in interpreting the findings (Saunders, Lewis, & Thornhill, 2009). This study was also constrained by a number of limitations, even if a number of precautions were taken to reduce these (see section 3.6). The most relevant of these limitations will be discussed in the following section.

One limitation of the thesis is that it was part of a bigger research project focusing on the challenges, experiences and policies of SMEs engaged in international business. The aim of this project is to examine the challenges facing SMEs seeking to expand their business abroad. While being part of a bigger research project allowed me to lean on experienced scholars, it also means that the data collected for this thesis did not only focus on risk, including how SME decision-makers perceive and cope with the risks inherent in internationalisation. The research project also focused on how decisions to internationalise are actually made, how SMEs take advantage of network attachments to facilitate internationalisation, and how SMEs can meet the challenges inherent in internationalisation through appropriate strategies. Hence, a follow-up study focusing exclusively on risk may help provide further details on how SME decision-makers perceive and cope with the risks inherent in internationalisation.

In addition, the findings are also subject to a number of methodological limitations. While it was purposefully decided to use a qualitative approach given its strengths in relation to the research questions motivating this study, the reliance on a qualitative research approach also has inherent limitations that must be taken into consideration when interpreting the findings. First, the findings are limited by the nature of the sample used in the study. The study explored how a group of purposefully selected SME decision-makers involved in international business perceive risk and the coping mechanisms used for dealing with these risks. While purposeful sampling is the most favoured sampling technique within qualitative research (De Vaus, 2001; Rebecca Piekkari & Welch, 2011), selecting cases for strategic rather than statistical reasons has a negative impact on the statistical generalisability of the findings (Farquhar, 2012). While it is possible to generalise the results of the study to theoretical propositions, the statistical generalisability of the findings is limited due to the limited sample size and the sampling technique used (Tsang, 2014). Thus, it is impossible to know whether the results of this study apply to SMEs in general without testing the findings against a randomly selected sample of SME decision-makers (Bryman & Bell, 2015). In addition, this study's findings are limited by the sampling restriction to one geographical area. The fact that the study only included decision-makers from a range of Danish SMEs also raises the question of how applicable the findings are in other countries and limits their generalisability. In this regard, a word of caution should be warranted concerning the generalisability of the study's findings to other countries.

Second, the study is subject to limitations related to interviewing. While some argue that interviewing is the best available data collection method in international business research (Yeung, 1995), interviewing is not without potential limitations, difficulties and pitfalls (Myers & Newman, 2007). Thus, as with every other method of data collecting, interviewing has both strengths and limitations. One of the greatest limitations associated with interviewing is the possibility that the interview may be biased. The internal validity of the findings is dependent on the ability and willingness of the interviewee to reveal their experiences and opinion (Farquhar, 2012). According to Bryman and Bell (2015) interviewees may have inaccurate recall of events or they answers may be influenced by social desirability.

The fact that the interviewees are corporate elites could potentially also have influenced both the interview situation and the quality of the data collected. For example, one issue related to interviewing corporate elites is related to the openness which can be expected from the interviewee (Welch et al., 2002). Interviewees occasionally had to cut the interviews short, leading to incomplete data gathering and a lack of probing questions. These time constraints may also have forced interviewees to create opinions under time pressure, not allowing the interviewees adequate time to think (Myers & Newman, 2007). This could potentially have influenced the reliability of the data and therefore also the findings. However, to reduce the likelihood of this the interview schedule was usually sent to the interviewees in advance, giving them the time to reflect upon the questions before the interview. Another limitation lies in the retrospective nature of some of the interview questions that might introduce bias into the data. Some of the interview questions concerned past events. For example, interviewees were asked questions about when they first became involved in international business activities, how their internationalisation had developed over time, how and to what extent risk has influenced the company. This may have introduced some bias, as the interviewees may have been unable to recall accurately how the internationalisation process developed over time or how perceived risks influenced internationalisation decision-making (Bryman & Bell, 2015; De Vaus, 2001).

Other factors, such as social desirability, may also have introduced bias. For example, because internationalisation has received considerable attention from policy-makers and the media interviewees may have portrayed their international orientation in a socially desirable or favourable way, even if this is not real. However, because the interviewees were assured anonymity, the risk of social desirability bias have been minimized (Bouquet & Birkinshaw, 2011; S. Sharma, 2000). In addition, many of the interviewees may have an educational background in business administration, why they are likely to be familiar with mainstream internationalization theories. Thus, when answering questions they may answer in accordance with these theories in order to appear more knowledgeable and rational.

In addition to potential bias due to the interviewee's ability and willingness to express their experiences and opinions, it must also be recognized that the data collected by interviewing and the subsequent analysis of this data is subject to 'interviewer effect' (Alvesson & Sandberg, 2011; Alvesson, 2003). While the use of an interview guide strengthens the reliability of the findings and minimize the interviewer effect on the study (Hilmersson & Jansson, 2012), it is impossible to completely eliminate interviewer effect, as it is the interviewer who asks most of the questions, steers the direction of the interview, decides when to ask probing questions and when it is time to move on. In addition, to further minimize the interviewer effect, an attempt was made to remain open to new and unexpected findings during the interviews, which involved bracketing presuppositions and being critical towards my own presuppositions (Kvale & Brinkmann, 2009).

7.5 DIRECTIONS FOR FUTURE RESEARCH

The results of this study have contributed to our knowledge of how decision-makers in SMEs engaged in international business perceive and acts upon the risks associated with internationalization. However, the study also identifies and highlights promising avenues for future research. The remainder of this chapter will present and outline some of these future research avenues, which are necessary to take this study forward and contribute to the literature on SME internationalisation.

First, a particular promising avenue for future research seems to lies in the integration of cognitive influences on the internationalisation process. More specifically, future research should explore how SME decision-makers perceptions of the risks associated with internationalization inform decision-making in relation to internationalization, including the direction and pace of internationalization. As already noted, existing literature has been criticised for not paying adequate attention to the role of the decision-makers, including their psychological and cognitive characteristics (e.g. Kiss et al., 2013; Maitland & Sammartino, 2015). While situational factors, such as risk, have received considerable attention in the internationalization literature, existing literature have, to date, overlooked how decision-makers perceive these situational factors. Thus, the decision-maker and his or her characteristics remain underspecified in internationalization research. Future research focusing on the integration of cognitive influences on the internationalisation process can therefore help address an area that remains under-researched.

Second, besides examining how decision-makers' perceptions of risks inform and influence decision-making in relation to internationalization, future research should increasingly focus on the *differences* in risk perceptions and the factors contributing to these differences. Existing literature has been criticised for not paying adequate attention to the factors explaining heterogeneity in decision-makers perceptions of the risks faced when doing business in foreign markets (Claver et al., 2008). In this regard, this study pointed out that the decision-maker's cognitive and psychological characteristics and experiences influenced how they perceive and act upon the risks associated with internationalization. These cognitive and dispositional characteristics act as filters, when decision-makers' make sense of foreign markets and international business activities, and influence their perceptions of the risk inherent in internationalisation (Cannella et al., 2010; Gavetti et al., 2007; Hambrick & Mason, 1984; Kaplan, 2011). However, future research is needed to continue exploring whether and how different cognitive and psychological characteristics and factors influence decision-makers' subjective assessment of the risk inherent in international business activities and how they deal with these risks. In addition, future research is needed to empirically verify the findings in different contexts to know if the results of this study apply to SME decision-makers in general.

Another relevant avenue for future research is to examine how SMEs and decision-makers learn about risks when seeking to expand their business abroad. This study indicate how SME decision-makers perceptions of the risks associated with internationalization is, at least to some extent, learned. As discussed above, the results of this study show that both indirect and direct experience may have an important impact on how SME decision-makers perceive and acts upon risk when doing business in foreign markets. Thus, it seems that SMEs can learn about the risks associated with internationalisation through both experiential learning (i.e. learning achieved through direct activities that the firm conducts in the process of doing business in foreign markets) and vicarious learning (i.e. learning achieved by observing the actions and results of others in the field). However, the relative importance of indirect and direct experience on how SME decision-makers perceive and acts upon risk remains unclear. In addition, previous research within organizational learning suggest that SME decision-makers in addition to experiential and vicarious learning also can learn through grafting and external search (Casillas et al., 2015). Thus, it is also possible that SMEs can learn about the risks associated with internationalization by hiring on managers who have international experience outside the firm or by seeking explicit information about foreign markets. Considering this, a fruitful direction for research is to investigate how SMEs learn about risks, including the relative importance of different types of learning (i.e. experiential learning, vicarious learning, grafting and external search).

In addition, future research should focus on examining how SME decision-makers perceptions of risk and the coping mechanisms used when doing business in foreign markets changes over time. This study has only been able to provide a snapshot of the decision-makers' perceptions of risk associated with internationalization. However, how decision-makers perceptions of the risks associated with doing business in foreign markets evolves and change over the course of internationalisation remains unclear, as the subjective assessment of risk may both increase and decrease from the starting point (Liesch et al., 2011).

Another factor to consider, in order to explain differences in risk perceptions and the factors contributing to these differences is *culture*. Culture is a key concept in international business research where it has been identified as an important factor influencing decision-making related to internationalization, including the choice of foreign markets and the selection of entry mode strategies and foreign operation modes (López-Duarte et al., 2015). In addition, culture has been described as an important factor explaining why some firms and not others identify, capture and create opportunities across national borders (Dimitratos & Plakoyiannaki, 2003). However, it has yet to be explored how and to what extent culture influence how SME decision-makers perceive and act upon risks when seeking to expand their business abroad. Little is therefore known about how the social and cultural context influence how SME decision-makers make sense of the risks associated with internationalization. This is surprising, as it has been argued that individuals' risk perception is likely to differ across cultures (Douglas & Wildavsky, 1983; Weber & Hsee, 1998; Wildavsky & Dake, 1990). In addition, culture is arguably also likely to influence how decision-makers react to these risks (R. P. Gephart et al., 2009). It has therefore been argued that in order to understand how and why individuals perceive and engages with risk it is necessary to appreciate and understand their sociocultural background and contextual embeddedness (Taylor-Gooby & Zinn, 2006a). Taking the social and cultural context into consideration can help explain why some risks come to be selected for attention, while others are neglected. Against this background, it is clear that more cross-cultural comparison and replication will be needed to better understand the impact of culture on SME decision-makers' perceptions of the risk inherent in foreign activities and the coping mechanisms used for dealing with these risks.

Second, future research should increasingly focus on the coping mechanisms SME decision-makers' employ in the face of risk and shift attention from the passive risk mitigation behaviour of SMEs towards their active risk mitigation behaviour. The results of this study show that most of the SME decision-makers did not act passively in the face of risk and make decisions in accordance to their willingness to take risk. Instead, decision-makers actively tried to deal with the risks associated with internationalization in order to eliminate or reduce the risks inherent in international opportunities. However, this is an area within the literature that has received surprisingly little attention to date. Thus, rather than focusing on the willingness to take risk future studies should focus on how SME decision-makers act and the coping mechanisms used to reduce or eliminate the risks associated with doing business in foreign markets. In addition, future research should continue exploring heterogeneity in risk accommodation behaviour and the coping mechanisms used to mitigate the risks when doing business in foreign markets. This also includes exploring and identifying the factors explaining why SME decision-makers select specific coping mechanisms and why some SME decision-makers take precautionary actions to safeguard against potential risks, while others do not.

Finally, a fourth relevant area for future investigation should further consider the role and impact of the Internet on the internationalization of SMEs. The Internet has been described as an important innovation for SMEs wanting to internationalize (Mostafa et al., 2005) and a precondition for internationalization of SMEs (Etemad et al., 2010). As a consequence, the Internet is often presented as the main reason why more SMEs are now starting to become active in international markets (Cavusgil & Knight, 2015; Oviatt & McDougall, 2005). In relation to this, the results of this study demonstrate how the Internet holds the potential of reducing the risk that adheres to doing business in foreign markets by increasing the amount of international market information available to firms as well as reducing a number of costs associated with internationalization. Thus, the Internet can be used to assist SMEs in their endeavours to internationalize, by providing SME decision-makers with a coping mechanism for reducing the amount of risk faced when pursuing international opportunities. However, more research is needed to fully explore the complex interrelationships between the Internet and the risks associated with internationalization. It has been argued that while the Internet is useful for mitigating traditional risks associated with internationalization, using the Internet as a means for conducting and supporting international business expose firms to other types of risks and may have negative consequences for the firm (Pezderka & Sinkovics, 2011). For example, it has been argued that the Internet can potentially lead to rash internationalization (Petersen et al., 2002) or cause SMEs to neglect traditional risks (Yamin & Sinkovics, 2006). Thus, more research is needed to determine the role of the Internet in the internationalization of SMEs, including the complex relationship between the introduction of the Internet and the risks associated with internationalization.

In conclusion, it is believed that by addressing the future research areas above, important contributions will be made to the internationalization literature.

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APPENDICES

Appendix A. Case Descriptions

Pseudonym	Sector	Year of Establishment	No. of employees	Turnover (Million DKK)	Export Intensity	Products	Top Export Markets
AirCo	Manufacturing	1991	70	115	70%	Ventilation units	Germany, Holland, Sweden
GreenCo	Textile	1916	300	Confidential	80%	Underwear	Norway
CoolCo	ICT	1997	70	100	> 95%	Liquid cooling systems	USA, Europa, Japan
PrivateCo	Textile	1965	100	150	80 %	Leather, fur and imitation of leather and fur to the fashion industry	Scandinavia, Germany, Holland
PolyCo	Manufacturing	2000	60	60	90 %	Joints and fittings	N/D
BlueCo	ICT	2003	16	20	75 %	Wireless technology	Germany, UK, Sweden, Norway, Middle East
WashCo	Manufacturing	1843	60	Confidential	95 %	Washing and handling systems	Norway, Germany, USA
TechCo	Textile	1989	6	20	65 %	Workwear	Germany, Scandinavia
DeliCo	Food	1986	100	220	12 %	Food products	Sweden, Germany, Faeroe Island and Greenland
AccesCo	Textile	2003	12	31	40 %	Fashion Accessories	Norway
MeatCo	Food	2001	40	175	90 %	Food products	UK, Germany, Italy, Sweden
MicroCo	ICT	2001	18	22	95%	Software solutions for Microsoft Dynamics AX	US, UK, and Australia
ShareCo	ICT	2003	15	20	90 %	E-learning software	USA, Benelux, Middle East, Australia and New Zealand
WindCo	ICT	2004	20-25	46	80%	Project management software	Germany
GateCo	ICT	2001	10	Confidential	25%	Payment solutions	Sweden and Norway
AgriCo	Manufacturing	1967	35	50	85 %	Machines for the agricultural, forestry and road sectors	Sweden, Norway, Finland
TexCo	Textile	1851	69	246	92%	Furniture fabrics	Germany, Sweden, Norway, France, Spain
FeedCo	Food	1992	75	335	75 %	Protein products	USA, Germany, Holland, Belgium, France
SmokeCo	Food	1929	19	21	80 %	Food products	Italy, France, Spain

Pseudonym	Sector	Year of Establishment	No. of employees	Turnover (Million DKK)	Export Intensity	Products	Top Export Markets
WorkCo	Textile	1923	16	45	50%	Workwear	Germany
LeviCo	Textile	1987	24	Confidential	75%	Women's garment	Sweden, Finland, Germany
DesignCo	Textile	1975	40	100	75 %	Interior products	Norway, Sweden, Finland, England, Ireland, Scotland, Germany, Portugal, Spain, Italy, France
MixCo	Manufacturing	1993	20	20	75 %	Mixers for food industry	Finland, Ireland
LogiCo	ICT	1987	60	53	> 80%	Software and Automation solutions	Norway
CleanCo	Manufacturing	1964	155	375	N/D	Cleaning products, detergents and personal care products	Sweden, Germany, Russia
DairyCo	Food	1984	250	600	95 %	Food products	Germany, Middle East, Balkans
FashionCo	Textile	1962	150	Confidential	70%	Light workwear	Germany
SailCo	Textile	1983	42	120	93%	Menswear and Womenswear	Germany
ShipCo	Manufacturing	1954	138	267	85%	Cable, rope-making equipment, offshore and composite solutions, and lighting	China, Russia. USA, Thailand, Mexico
BuildCo	Manufacturing	1986	60	Confidential	96 %	Spacers and window sealants	Germany
MobileCo	ICT	1993	158	241	95%	Advanced wireless solutions	USA
SourceCo	ICT	1999	25	Confidential	85 %	Procurement software	UK

Appendix B. Interview Guide

Firm and product characteristics

1. When and how was the company founded?
2. What is the company's ownership?
3. Is the company managed by any non-owner managers?
4. Does it have a board of directors or advisory committee?
    a. (If yes) who are they and what role do the play? (any external contacts?)
5. What is the company's present size in terms of total employment and sales turnover?
6. What products or services does the company offer?
7. In your opinion, what are the company's overall strengths?
8. In your opinion, how does the company perform compared to competitors similar in size and scope?

Internationalisation – overall pattern, risks, transaction costs, outcomes

9. When did the company first make any sales abroad?
10. Has the company invested abroad?
11. How did your international business develop over time?
    a. Countries involved
    b. Products/services supplied
    c. Operational/entry mode used (e.g., exporting, licensing, franchising, investment)
12. What are the primary reasons for entering foreign markets? Do these vary for different markets?
13. In your opinion, what is critical about doing business internationally? What is difficult about doing business internationally?
14. In your opinion, what are the main risks you face in doing business in foreign markets (e.g., general market risks, commercial risks, political risks etc.)
    a. Do these vary for different markets?
15. In your opinion, what are the main implications of these risks?
16. How do you deal with these risks? (e.g., insurance, pre-payment, support from foreign agents, export payment/credit guarantee schemes)
17. What is the percentage of your company's sales revenues coming from foreign markets?

18. What are your company's most important markets in terms of international sales?
19. How much competition do you face in your foreign market(s)?
20. How do you differentiate your company from competitors in your foreign market(s)?
21. Overall, what have been the main benefits of internationalising?

Internationalisation – knowledge required and sources

22. Have you had to develop new products or services as a basis for going abroad?
    a. (If yes) where did you get the relevant knowledge?
23. Did you have to obtain fundamentally new knowledge on how to market to new territories?
    a. (If yes) where did you obtain this new knowledge?
24. How many people (if any) do you have working on research? What is your annual expenditure on research?
25. Have you had to carry out any modification to your existing products or services to supply them abroad?
    a. (If yes) did you have to bring in any new knowledge/expertise to do this and where did you obtain it?
26. Did you have to make any changes in the way you marketed or supplied products or services to new foreign markets?
    a. (If yes) did you have to bring in any new knowledge/expertise to do this and where did you obtain it?
27. How many people in your company (if any) are working on product development/adaptation? What is your estimate of annual spending on this?
28. Did you carry out new business development?
    a. (If yes) where did you obtain the extra knowledge required?
29. How many people do you have working on business and market development?

Decision-making

Please identify an internationalisation decision taken and implemented during the last two years (N.B. these questions also apply to purely reactive 'decisions' such as selling abroad in response to an unsolicited order)

30. Who was involved in this internationalisation decision and who made it?

31. Why was this particular internationalisation decision made? (motives, reasons)
32. How strategically important was this internationalisation decision for your company (low, medium, high)?
33. Did your company's or your own previous experience in international markets assist in this internationalisation decision?
34. How was this actual decision made? Please describe the process followed in making this decision – the main sequence of events from its inception to its completion (**Note for the interviewer**: motivate the interviewee to address the following dimensions: rationality, intuition, reaction, political behaviour and conflict, being intended or emergent)
35. Were there any major challenges regarding this decision's implementation?
    a. (If yes) what kind of challenges?
    b. What actions have been taken to deal with these challenges?
36. What contribution has this decision's implementation made to the firm's international business development?

Internet and internationalisation

37. Has the introduction of the Internet provided new opportunities for supporting or enhancing the internationalisation of the firm?
38. How would you evaluate your knowledge about the opportunities provided by the Internet for supporting your internationalisation? Are you doing anything to keep yourself updated on what possibilities exist?
39. Has the Internet affected the way you go about expanding into new international markets? Please explain.
40. Has the Internet enabled you to overcome any barriers or obstacles that may have hindered your internationalisation potential and efforts in the past?
41. In your opinion, what are the main advantages and disadvantages of using the Internet when expanding into foreign markets?

Appendix C. Data Extraction Table

Authors	Pub Year	Title Primary	Purpose	Method	Sample	Key findings
Bassino, Dovis & Van der Eng	2015	Do Japanese MNCs use expatriates to contain risk in Asian host countries?	To investigate the impact of host-country risk on the expatriation strategies of multinational firms.	Archival	5,703 firms from 13 different Asian countries	The degree of expatriation is negatively correlated with country risk. In host countries with higher country risk, MNCs tend to rely to a lesser extent on expatriates, and by implication to a greater degree on locally recruited senior staff
Krapl	2015	Corporate international diversification and risk	To examine the effects of corporate international diversification on risk	Archival	286,105 observations from 8,192 firms traded on Nasdaq, Amex and the NYSE	Results document a mostly positive relation between CID, as measured by four different empirical proxy variables, and equity risk. I also find that diversification increases the volatility of cash flows and earnings.
Kraus, Ambos, Eggers & Cesinger	2015	Distance and perceptions of risk in internationalization decisions	To examine examines top managers' risk perceptions in internationalization decisions	Experiment	126 CEOs and top managers responsible for internationalizati on	Results show that distance dimensions are the primary drivers of risk assessment, whereas entry-mode choice is secondary. Internationalization may therefore be a hierarchical decision in which managers choose target market (and risk profile) and view entry-mode choice as subordinate to other environmental factors.
Piaskowska & Trojanowski	2014	Twice as Smart? The Importance of Managers' Formative-Years' International Experience for their International Orientation and Foreign Acquisition Decisions	To examine how top management team's (TMT) international orientation influences perceptions of environmental uncertainty and how these perceptions impact international strategic decisions	Archival	561 UK firms	TMT international orientation positively moderates the negative impact of cultural differences and host country risk on acquisition ownership stakes.

Authors	Pub Year	Title Primary	Purpose	Method	Sample	Key findings
Kim	2013	Uncertainty management strategies and the export performance of cultural goods: The case of the Korean movie industry from 2000 to 2004	To examine how firms in the cultural industry manage the risks of uncertainty associated with exporting to improve their export performance	Archival	308 Korean movies released between the years of 2000 and 2004	The strategy of market signaling, that is, the casting of movie stars with high visibility, has a positive relationship with the export performance of a movie, while adopting a generalist strategy has an inverted U-shape curve-linear relationship with export performance
Kiss, Williams & Houghton	2013	Risk bias and the link between motivation and new venture post-entry international growth	To examine the role of managerial risk perceptions and internationalization motivations on post-entry international growth.	Survey	286 US-based SMEs	Managerial risk perceptions influence internationalization scope but not internationalization intensity. In addition, internationalization motivations influence the amount of risk perceived by entrepreneurs about specific opportunities.
Andersen	2012	Multinational risk and performance outcomes: Effects of knowledge intensity and industry context	To examine how multinationality is related to downside risk and upside potential	Archival	1,292 US-based firms operating across all industries except financial institutions	Multinationality can reduce downside risk and enhance upside potential, especially in knowledge-based firms where internationalization may deflect excessive losses and exploit potential gains from new opportunities
Elango & Chen	2012	Learning to manage risks in international R&D joint ventures through ownership decisions	To examine the effects of relational versus performance risk factors on ownership decisions in international R&D joint ventures and to examine how internationalization experience and IJV experience of the firm moderate the effects of relational versus performance risk	Archival	266 firms Worldwide Merger & Acquisitions	In response to performance risk, firms are less likely to pursue a majority ownership, whereas with relational risk the effect is opposite, suggesting that firms assess these two types of risk quite differently

Authors	Pub Year	Title Primary	Purpose	Method	Sample	Key findings
Fink & Harms	2012	Contextualizing the relationship between self-commitment and performance: Environmental and behavioral uncertainty in (cross-border) alliances of SMEs	To examine the impact of environmental and behavioral uncertainty on the relationship between trust based on self-commitment and performance in the context of (inter)national alliances between firms from market economies and/or transition economies	Survey	212 SMEs from transition economies (Czech Republic and Slovenia) and market economies (Austria)	The strength of the relationship between self-commitment on firm performance in cross-border alliances differs depending on the type of uncertainty faced in a given situation.
Freeman, Giroud, Kalfadellis & Ghauri	2012	Psychic distance and environment: impact on increased resource commitment	To explore the role of psychic distance and environment on increased resource commitment	Case study	22 Australian firm with FDI located in the UK	born-global and recent entrants are less affected by psychic distance, and more influenced by external factors, but for different reasons, in making early increased resource commitment decisions in the host market, than are older entrants.
Hilmersson & Jansson	2012	Reducing Uncertainty in the Emerging Market Entry Process: On the Relationship Among International Experiential Knowledge, Institutional Distance, and Uncertainty	To examine the uncertainty-reducing effects of experiential knowledge in the market entry process	Survey	203 SMEs with entry experience into the new Eastern European Union member-states, Russia and China	Internationalization knowledge does not reduce uncertainty in the market entry process. Rather, societal knowledge of the entering firm has an uncertainty-reducing effect in markets that are relatively less distant from its home market. In addition, international experiential knowledge of high specificity, an important type of marketing knowledge, provides the greatest uncertainty-reducing effect
Jiménez & Delgado-García	2012	Proactive management of political risk and corporate performance: The case of Spanish multinational enterprises	To investigate the relationship between political risk assumed by MNEs in their internationalization strategies and firm performance	Archival	164 large Spanish MNEs	The level of political risk assumed by the MNEs in their international strategy has a positive influence on their performance and vice versa
Quer, Claver & Rienda	2012	Political risk, cultural distance, and outward foreign direct investment: Empirical evidence from large Chinese firms	To examine the influence of political risk and cultural distance on the location patterns of large Chinese companies	Case study	29 large Chinese firms	Host country political risk is not associated with the location of Chinese outward FDI and cultural distance does not have a strong negative influence on such decision.

Authors	Pub Year	Title Primary	Purpose	Method	Sample	Key findings
Sahaym, Trevino & Steensma	2012	The influence of managerial discretion, innovation and uncertainty on export intensity: A real options perspective	To examine the roles of managers, context, and environment in motivating geographic sales diversification	Archival	203 U.S. manufacturing industries	Managerial discretion will motivate geographic sales diversification more strongly when levels of uncertainty are high compared with when they are not high
Salomon & Wu	2012	Institutional distance and local isomorphism strategy	To examine how institutional uncertainty influence isomorphism decisions	Archival	89 banks	Foreign firms choose a higher level of local isomorphism as the cultural, economic, and regulatory distances between the home country and the host country increase .
Acedo & Galan	2011	Export stimuli revisited: The influence of the characteristics of managerial decision makers on international behavior	To determine the extent to which a company's motives to enter the international marketplace shape the subsequent behavior of that company and to analyze the psychological characteristics of the decision-making individuals who are subject to such motivations	Survey	110 exporting SMEs	SMEs internationalization decision is strongly influenced by the perceptions of decision-makers, including their perception of risks
Figueira-de-Lemos, Johanson & Vahlne	2011	Risk management in the internationalization process of the firm: A note on the Uppsala model	To examine the Uppsala model's risk formula in its two variables: commitment and uncertainty	Conceptual	N/A	Findings show how the risk level changes as a consequence of changes in uncertainty and commitment during the internationalization process of a firm
Hain	2011	Risk perception and risk management in the Middle East market: theory and practice of multinational enterprises in Saudi Arabia	To explore the risk perception and risk management strategies of MNEs in the Middle East	Survey	49 German companies operating in Saudi Arabia	Cultural risk is assessed as more important in the business environment than political, financial, and economic risk. MNEs mostly use informal approaches rather than structured hedging or insurance product. firm size has implications on the perception of some risk factors and for the level of risk management sophistication.

Authors	Pub Year	Title Primary	Purpose	Method	Sample	Key findings
Hashai	2011	Sequencing the expansion of geographic scope and foreign operations by "born global" firms	To explore how born globals internationalization and cope with risk in the internationalization process	Survey	144 Israel-based high-technology born global firms	Born global firms aim to reduce the risk of internationalization by sticking to a "dominant internationalization path"
Liesch, Welch & Buckley	2011	Risk and Uncertainty in Internationalisation and International Entrepreneurship Studies Review and Conceptual Development	To review existing literature on risk and uncertainty in the international expansion of the firm in the internationalisation and international entrepreneurship literatures	Literature review	N/A	There is need for a more nuanced treatment of risk and of uncertainty in the international expansion of firms in their interactions with each other. More uncertainties might be revealed and risk might increase with international experience, thereby inhibiting internationalisation, and in some cases inducing de-internationalisation.
Nadkarni, Herrmann & Perez	2011	Domestic mindsets and early international performance: The moderating effect of global industry conditions	To examine how a fit between international industry conditions and domestic mindset influence international performance	Archival	178 large and established firms from 20 industries	Decision-makers can reduce the risk of failure and cope with international environments by matching their domestic mindset with international industry environments
Pezderka & Sinkovics	2011	A conceptualization of e-risk perceptions and implications for small firm active online internationalization	To develop a comprehensive and unified international risk framework for the online context and to develop propositions for future research which help to explain why SMEs opt' for active online internationalization	Conceptual	N/A	International e-risks are suggested as acting as moderators of the relationship between traditional international risks and managerial decisions
Santangelo & Meyer	2011	Extending the internationalization process model: Increases and decreases of MNE commitment in emerging economies	To explore why strategic intentions at the outset of an investment project differ from the actual operations established.	Survey	325 firms	Institutional uncertainty induces investors to design their strategies for flexible responses to new opportunities, and hence increases the chance for entrepreneurial opportunity recognition and commitment increase. Under high institutional uncertainty, investors prefer low commitment but flexible modes that enable later commitment increases

Authors	Pub Year	Title Primary	Purpose	Method	Sample	Key findings
Andersen	2011	The risk implications of multinational enterprise	To explore the relationship between the degree of multinationality and various risk measures including downside risk, upside potential, and performance risk	Archival	1.164 firms	Multinationality is associated with lower downside risk as well as higher upside potential and leads to reduced performance risk. The study finds no trace of diminishing effects from higher degrees of multinationality.
Xu, Hu & Fan	2011	Entry mode choice of Chinese enterprises: The impacts of country risk, cultural distance and their interactions	To examine how country risk and cultural distance are associated with entry mode choices of enterprises from China	Survey	167 Chinese companies	Country risk and cultural distance have significant impact on entry mode choice
Butler, Doktor & Lins	2010	Linking international entrepreneurship to uncertainty, opportunity discovery, and cognition	To develop a theoretical model that incorporates cognitive processes to explain why some individuals are able to notice opportunities in international environments with high levels of uncertainty and then bear this uncertainty in terms of taking action on these international opportunities.	Conceptual	N/A	The impact of uncertainty on opportunity identification and eventual international entrepreneurial actions is affected by the different roles of uncertainty.
Demirbag, McGuinness & Altay	2010	Perceptions of Institutional Environment and Entry Mode: FDI from an Emerging Country	To examine the relationship between perceptions of institutional environment and entry mode decisions	Survey	104 firms	Greater institutional uncertainty result in a preference for joint venture over wholly owned subsidiary. There is a strong correlation between the perceived risk of intervention and joint venture entry mode
Elango	2010	Influence of industry type on the relationship between international operations and risk	To examine the relationship between internationalization and risk across global and multi-domestic industries	Archival	367 firms	Internationalization reduces risk, especially in global industries compared to multi-domestic industries

Authors	Pub Year	Title Primary	Purpose	Method	Sample	Key findings
Holburn & Zelner	2010	Political capabilities, policy risk, and international investment strategy: evidence from the global electric power generation industry	To examine the relationship between political risk and capabilities influence decisions related to market selection in MNEs	Archival	496 firm investment years, defined as a year in which a given private electricity producer invested in foreign markets	MNEs vary in their response to host-country policy risk as a result of differences in organizational capabilities for assessing and managing political risk
Hsieh, Rodrigue & Child	2010	Risk perception and post-formation governance in international joint ventures in Taiwan: The perspective of the foreign partner	To investigate the implications of risk perception for the configuration of control, in the post-formation governance of international joint ventures	Survey	71 Taiwaneese firms	Organizations rely on tighter post-formation governance measures in the face of performance and partnership risk in order to increase or maintain their confidence in their joint ventures
Jakobsen	2010	Old problems remain, new ones crop up: Political risk in the 21st century	To present a theoretical framework that outlines the key causal relationships in the political risk landscape	Conceptual	N/A	It is possible to identify four main dimensions of sources of political risk: the obsolescing bargain mechanism; socio-political instability and grievances; political institutions; and preferences and attitudes.
Jiménez	2010	Does political risk affect the scope of the expansion abroad? Evidence from Spanish MNEs	To examine the effect of institutions on the strategy of international diversification and on the relationships between political risk and the scope of internationalisation (i.e. the number of countries where the firm has subsidiaries)	Archival	166 Spanish MNEs	A higher degree of diversity is positively related to a wider scope of internationalisation
Alon & Herbert	2009	A stranger in a strange land: Micro political risk and the multinational firm	To provide new perspectives on the nature of micro political risk within a host country, including the factors affecting it	Conceptual	N/A	The firm’s situation, behavior, and structure moderate the impact of the general environment on its particular political risk exposure.

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Matanda & Freeman	2009	Effect of perceived environmental uncertainty on exporter-importer inter-organizational relationships and export performance improvement	To examine how export suppliers from a developing country use inter-organizational relationships to manage perceived environmental uncertainty in export markets	Survey	262 fresh-produce export suppliers in Zimbabwe	Perceived environmental volatility and competitive intensity by suppliers promotes cooperation and commitment between the suppliers and their buyers in export markets.
Claver, Rienda & Quer	2008	Family firms' risk perception: Empirical evidence on the internationalization process	To examine the factors affecting the risk perceived by decision-makers in relation to international activity in a range of family-owned firms.	Survey	92 Spanish exporting firms	Risk perception decreases with the presence of the first generation and the size of these organizations. Additionally, it has been found that the risk perceived is higher when the firm advances in its international commitment level.
Forlani, Parthasarathy & Keaveney	2008	Managerial risk perceptions of international entry-mode strategies	To examine how opportunity for control and firm capability interact to moderate the amount of risk that managers associate with various entry-mode strategies	Survey	95/81 US-based firms	Ownership-provided control interacts with capability to influence managerial risk perceptions. Managers in lower-capability firms see the least risk in non-ownership entry mode while those in higher-capability firms see the least risk in the equal-partnership entry mode
Olibe, Michello & Thorne	2008	Systematic risk and international diversification: An empirical perspective	To systematically evaluate the nature of the relationship between internationalization and systematic risk	Archival	594 public firms	We find that international diversification is significantly and positively associated with systematic risk and that diversification augments systematic risk.
Xu, Wan & Pei	2008	A study on risk perception and risk identification in the internationalization process of chinese hi-tech enterprises	To explore the risks faced when operating in foreign markets	Case study	single case	Firms face different key risks in different internationalization stages. Political risks increases as the firms resource commitment in foreign markets increases.
Acedo & Jones	2007	Speed of internationalization and entrepreneurial cognition: Insights and a comparison between international new ventures, exporters and domestic firms	To examine the relationship between speed of internationalization and entrepreneurial cognition, in terms of risk perception, proactivity, tolerance for ambiguity and international orientation	Survey	216 randomly selected Spanish SMEs	Risk perception is the key variable in relation to internationalization speed. Risk perception is the element that may prevent a firm from internationalizing at all, in a timely manner, or fast enough to capture available opportunities

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Agarwal & Feils	2007	Political risk and the internationalization of firms: An empirical study of Canadian-based export and FDI firms	To examine how exporters and foreign direct investors evaluate the relative importance of political risk factors	Survey	45 Canadian exporters and foreign direct investors	The degree of red tape and level of protectionism are the two most critical factors that differentiate export and FDI decision makers, followed by stability of foreign exchange rates, level of economic development, and attitude of host country
Hutton, Cox, Clouse, Gaensbauer & Banks	2007	The Role of Sustainable Development in Risk Assessment and Management for Multinational Corporations	To present a conceptual model for risk assessment and management integrating traditional financial valuation models and the principles of sustainable development utilizing corporate social responsibility as the strategic focus for decisions to reduce risk exposure	Case study	Mining company	Unanticipated changes in the environmental and societal level can have huge performance implications
Pinho	2007	The impact of ownership: Location-specific advantages and managerial characteristics on SME foreign entry mode choices	To examine drivers and inhibitors of an entry mode decision	Survey	87 Portuguese SMEs	Managerial risk perception was not found to be very strong predictors of equity modes of entry. SMEs was not found to be influenced in their entry mode choice by the risk associated with a host country.
Akhter & Robles	2006	Leveraging internal competency and managing environmental uncertainty: Propensity to collaborate in international markets	To examine how internal competencies and environmental uncertainties affect the propensity to collaborate in international markets	Conceptual	N/A	Goals of leveraging competencies and managing environmental uncertainty in host countries have varying effects on the level of international collaboration
Acedo & Florin	2006	An entrepreneurial cognition perspective on the internationalization of SMEs	To examine how psycho-cognitive and organizational characteristics influence the degree of internationalization in SMEs	Survey	222 Spanish SMEs	The decision-makers risk perception of international expansion is an important mediator or moderator of both individual level and firm level determinants of international entrepreneurial behavior

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Liesch, Steen, Knight & Czinkota	2006	Problematizing the internationalization decision: terrorism-induced risk	To conceptualize internationalization decisions confronted by a firm in an terrorism-induced environment	Conceptual	N/A	International terrorism exposes the international firm to calculable risk though its direct and discrete effects and to unmeasurable true uncertainty through its systemic effects. These heightened uncertainties affect internationalization decisions (and others) by altering perceptions of expected returns and levels of risk, and by introducing new and true uncertainties into decision frames
Sanchez-Peinado & Pla-Barber	2006	A multidimensional concept of uncertainty and its influence on the entry mode choice: An empirical analysis in the service sector	To investigate how different types of uncertainty influence the choice of certain entry modes within the context of the service sector	Survey	170 Spanish firms	Because of the complexity and heterogeneity of the service sector, uncertainty influence entry mode decisions differently depending on the type of the service offered in international markets.
Collinson & Houlden	2005	Decision-Making and Market Orientation in the Internationalization Process of Small and Medium-Sized Enterprises	To examine the internationalization decision-making processes of dynamic SMEs in the UK, the influences that impact these decisions, and how the mental maps of executive decision-makers impact patterns and processes of international expansion of these firms	Mixed methods	Survey 390 UK SMEs and in-depth case study 8 UK SMEs	Mental maps which represents the risk perceptions of decision-makers play a central role in the decision-making processes of dynamic SME's and in the foreign market location decisions of these firms
Di Gregorio	2005	Re-thinking country risk: insights from entrepreneurship theory	To propose an alternative perspective from which to approach country risk	Conceptual	N/A	Entrepreneurship theory may be used to refute the utility, and even highlight the potential hazard, of following the conclusions drawn from academic- and practitioner-oriented research concerning country risk
Keillor, Wilkinson & Owens	2005	Threats to international operations: dealing with political risk at the firm level	The purpose of this study is to explore the means by which firms attempt to actively manage political risks associated with international operations	Survey	170 multinational firms	The type of political activity engaged in by firms will differ depending on the form of political threat faced

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Suder & Czinkota	2005	Towards An Understanding of Terrorism Risk in the MNE	To explore the conditions that lead to new considerations about risk and its management at policy and the MNE level	Conceptual	N/A	09/11-type terrorism represents a new and particular demanding challenge in terms of internationalization. A firm's performance under risk of terrorism will be a function of its ability to reduce its vulnerability to terrorist acts through risk assessment analysis and forecasting, shortened supply lines, and a decreased need for economic redundancy.
Delios & Henisz	2003	Policy uncertainty and the sequence of entry by Japanese firms, 1980-1998	To examine the influence of political hazards on the within-country sequence of international expansion	Archival	6465 international expansions of 665 Japanese manufacturing firms in 49 countries	Although a distribution to manufacturing entry sequence tends to prevail in countries with low levels of policy uncertainty, as uncertainty in the policy environment increases, initial entry by distribution is increasingly likely to be eschewed in favor of an initial entry by a joint venture manufacturing plant.
Delios & Henisz	2003	Political hazards, experience, and sequential entry strategies: The international expansion of Japanese firms, 1980-1998	To examine how the political environment influences choices about which markets to enter for firms with different levels and types of international investment experience	Archival	3,857 international expansions in 665 Japanese manufacturing firms	Firms that had gathered relevant types of international experience were less sensitive to the deterring effect of uncertain policy environments on investment
Iankova & Katz	2003	Strategies for political risk mediation by international firms in transition economies: The case of Bulgaria	To examine how international firms in transition economies manage political risks	Case study	3 International firms from transition economies	companies are pursuing two strategies—a low involvement strategy, in which companies, often working as part of a consortium, devote limited resources to mediation of a narrow set of political concerns, and a high involvement strategy, in which companies develop a diverse network of government, business, and public partners who can help them to mediate the political environment broadly
Nakos & Brouthers	2002	Entry Mode Choice of SMEs in Central and Eastern Europe	To examine the entry mode choices of SMEs in Central and Eastern Europe	Survey	118 Greek SMEs	SMEs perceiving high contractual risks in a target country tended to use more equity modes of entry than firms perceiving lower contractual risks

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Brouthers, Brouthers and Werner	2002	Industrial sector, perceived environmental uncertainty and entry mode strategy	To examine how differences between service and manufacturing firms influence risk's impact on entry mode strategy	Survey	79 European firms (44 manufacturing firms and 35 service firms)	(1) Service firms tended to utilize more integrated modes of entry than manufacturing firms; (2) greater political risk lead to increased use of integrated modes for both service and manufacturing firms; (3) greater product-market risks resulted in more integrated entry strategies for both industry sectors; (4) materials risk had an impact on manufacturing firm strategy but not service firm strategy; (5) macro-economic risk had an impact on service firm strategy but not manufacturing firm strategy.
Sethi & Guisinger	2002	Liability of foreignness to competitive advantage: How multinational enterprises cope with the international business environment	To examine liability of foreignness from a strategic management perspective	Conceptual	N/A	Liability of foreignness is the aggregated effect of the firm's interaction with all elements of the international business environment. Accurate reading of the complex and volatile IBE, formulation of a compatible strategy and its effective implementation together contribute to good performance
Kwok,Chuck & Reeb	2000	Internationalization and firm risk: An upstream-downstream hypothesis	To examine how home and target market conditions influence the overall effect of internationalization on risk	Archival	1.921 firms from 32 different countries	The risk impacts of firm internationalization are a function of the relative risks in the home and target country.
Shrader, Oviatt & McDougall	2000	How new ventures exploit trade-offs among international risk factors: Lessons for the accelerated internationalization of the 21st century	To examine how born globals manage the risks associated with accelerated internationalization	Archival	87 new ventures based in the US (212 foreign market entries)	Strategic international risks are managed by exploiting simultaneous trade-offs among foreign revenue exposure, country risk, and entry mode commitment in each country
Qian and Li	1998	Multinationality, global market diversification and profitability among the largest US firms	To examine the impact of geographic scale and scope of foreign operations on risk and profits	Archival	125 US firms from the industrial industry	Heavy or light geographic scope of foreign operations cause a downturn in the risk-performance relationship, why the combination of high geographic scale and medium geographic scope of foreign operations are preferable.

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Reeb, Kwok & Baek	1998	Systematic risk of the multinational corporation	To examine whether MNCs have a different level of systematic risk	Archival	880 MNCs in the first data set and 844 in the second data set	Internationalization leads to higher systematic risk
Qian	1996	The effect of multinationality measures upon the risk-return performance of US firms	To examine the effect of a firm's overseas activities upon its risk-return performance	Archival	169 US firms from the industrial industry	Firms with a greater share of overseas activities have a greater opportunity to achieve a better risk-return performance than those with little foreign involvement
Brouthers	1995	The Influence of International Risk on Entry Mode Strategy in the Computer Software Industry	To examine the influence of international risk on entry mode strategy in the computer software industry	Survey	125 randomly selected US-based firms from the computer software industry	Firms perceiving higher levels of international risk pursued entry modes that are more independent than firms that perceive lower risk levels
Raven, McCullough & Tansuhaj	1994	Environmental influences and decision-making uncertainty in export channels: Effects on satisfaction and performance	To examine export executives perceptions regarding the foreign environment and decision-making uncertainty and their effects on satisfaction and economic performance in the export channel	Survey	118 firms involved with exporting agricultural commodities	Decision-makers perceive environmental uncertainty and decision-making uncertainty to be greater in export channel compared to domestic channels and that these types of uncertainty affect satisfaction and performance
Miller	1992	A Framework for Integrated Risk Management in International-Business	To categorize the uncertainties faced by firms operating internationally and outline financial and strategic corporate risk management responses	Conceptual	N/A	Firm responses to uncertainties involve trade-offs between various uncertainties
Mascarenhas	1982	Coping with Uncertainty in International Business	To examine how multinationals cope with uncertainty in the international business environment	Case study	10 multinational companies	Decision-makers consider the conduct of international business to be susceptible to substantial uncertainties. General methods used to cope with sources of uncertainty include: prediction, insurance, avoidance, control, and flexibility

Appendix D. List of Publications

Article I: Eduardsen, J. S. Risk and internationalization: A review and research agenda

Article II: Eduardsen, J. S., & Marinova, S. T. (2015). *How risky is internationalization? A qualitative study among Danish SMEs*. Paper presented at EGOS Colloquium, ALBA Graduate Business School, Athens, Greece. Currently under review in International Journal of Export Marketing

Article III: Eduardsen, J. S., & Marinova, S. T. (2015). Coping with Risk in the Internationalization of SMEs. In E. Kaynak, & T. Harkar (ed.), *Regional and international competitiveness: Defining national and governmental drivers of productivity, efficiency, growth and profitability*. International Management Development Association.

Article IV: Eduardsen, J. S. (2015). *Exploring the Role of the Internet in Firm Internationalization: Interpretations of SME Decision Makers*. Paper presented at 13th Vaasa Conference on International Business, Vaasa, Finland.

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